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## **THESIS**

**TURKEY'S IRAN CARD: ENERGY COOPERATION  
IN AMERICAN AND RUSSIAN VORTEX**

by

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June 2004

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**TURKEY'S IRAN CARD:  
ENERGY COOPERATION IN AMERICAN AND RUSSIAN VORTEX**

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## **ABSTRACT**

This thesis analyzes the consequences of Turkey's natural gas cooperation with Iran. Two countries initiated cooperation in natural gas sales and transportation to Turkey and Europe. However, conflicting interests of many actors in energy issues make finding a solution harder. With the signing of the gas agreement between Turkey and Iran, the calculations became complicated even further. Turkey's efforts to industrialize its economy, Iran's struggle against the U.S. sanctions along with its ideological reputation, the emergence of new independent former Soviet republics that are not very independent economically from Russia and the U.S. objectives in enhancing the political and economic advance of those republics as well as containment of Iran are the major issues on the scene. If a compromise that would address the needs and interests of all actors in the region could be reached, the regional political and economic stability could have a substantial contribution to global security and stability. In this sense, Turkey's natural gas cooperation with Iran plays an important role for future prospects, since it may distribute prosperity and stability through the pipelines established between two countries that can connect Central Asia to Europe.

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## **I. INTRODUCTION**

This thesis deals with a specific aspect of the energy issues, which have been going on in the Middle East since the beginning of 1990s. In terms of coverage, it includes Turkey's natural gas cooperation with Iran and its consequences regarding the EU, Russia and the United States. The major focus of the subject is how to achieve a compromise between Turkey's interest in natural gas agreement with Iran and the interests of Russia and the United States in the region. Additionally, there are some several concerns regarding Russia, which is the sole adversary to the Iranian natural gas. Overall, the purpose of the thesis is to identify the consequences of Turkey-Iran natural gas cooperation today and in the future, predict the effects to Turkey's relations mainly with the U.S., Iran, the E.U. and Russia, and to highlight the strategies that Turkey should follow regarding these countries.

Why is this cooperation important? The Turkish-Iranian relations, which gained impetus with natural gas agreement between two countries, are opening a new period in such a manner that is likely to change the influence of competing powers in the region. The states that are subject in question are the United States and Russia. Regarding the Global War on Terror, Central Asia- the Middle East and European Union linkages and Russian desires in the region, a rapprochement between Turkey and Iran in energy field promotes many changes in regional dynamics.

Although the scope of thesis focuses a period since 1990, I also examine the period before 1990 in Chapter 1 to understand the historical dynamics in Turkish-Iranian relations. Moreover, the thesis will shed light on the issues for further research projects for possible U.S. policy changes after November, 2004 elections in the U.S.

In this thesis, Iranian motivations, economic and political necessities, and the relations of Turkey and Iran with their neighbors are crucial issues to examine on the one hand. Therefore, the research is based on the databases, Turkish-Iranian and international newspapers as sources, energy data about natural gas, and analyses about the future projections.

On the other, the question about the future of the Turkish-American relations emerges as a concern resulting from the Turkish-Iranian natural gas agreement. What are the implications of the U.S. reaction to the Turkish-Iranian energy cooperation? What kind of policies should Turkey follow to keep its U.S. ties on the best level as it had been during the Cold War? These questions are of great importance for Turkey regarding its future objectives.

Turkey needed Iranian natural gas due to its industrial and residential needs. Iranian natural gas sources were large enough to supply Turkey's gas demands. The initiatives of the Turkish-Iranian natural gas agreement started in April 1995 with the signing of the Memorandum of Iranian Gas Sales to Turkey as well as setting up a pipeline between Turkey and Iran.<sup>1</sup> Turkey and Iran signed the natural gas agreement, which is worth of U.S.\$20 billion, on 8 August 1996 between the contemporary Turkish Prime Minister Necmettin Erbakan and the Iranian Oil Minister Gholamreza Agazadeh. The agreement was planned to start the delivery of the natural gas to Turkey in 2001. Even though the signing of the agreement happened during Erbakan's term, the issue had long been negotiated during previous period, the Çiller Government.<sup>2</sup>

According to the agreement, Turkey will receive 140 billion cubic feet natural gas every year until 2020. Upon the signing of the agreement, Iran and Turkey agreed on the construction of a gas pipeline in their territories, each responsible for their part. Iran built a 160-mile gas pipeline until the Turkish province of Dogubeyazit, near the BTC (Baku-Tbilisi-Ceyhan) pipeline's merging point to Turkey.<sup>3</sup> The natural gas transfers from Iran to Turkey started in December 10<sup>th</sup>, 2001.

Currently, the U.S. follows a containment strategy in an effort to exclude Iran from the projects that involve energy sector. Iran became more important due to the Turkish-Iranian natural gas pipeline, since it complicated the calculations of the actors in the regional pipeline politics such as the supremacy of the Russian oil and gas pipelines from Central Asia to Black Sea and Europe and the U.S. supported Baku-Tbilisi-Ceyhan

<sup>1</sup> Xinhua News Agency, "Iran to Sign Gas Deal With Turkey," 8 August 1996.

<sup>2</sup> BOTAŞ Boru Hatları ile Petrol Taşıma A.Ş. (BOTAŞ Turkish State-Owned Pipeline Company), "Iran ile Doğal Gaz Alım-Satım Anlaşması (The Natural Gas Trade Agreement with Iran)". <http://www.Botas.gov.tr/faliyetler/antlasmalar/iran.html>. Accessed 28 April 2004.

<sup>3</sup> Xinhua News Agency, "Iran to Sign Gas Deal With Turkey," 8 August 1996.

(BTC) pipeline from Azerbaijan through Georgia to Turkey. Especially in post-September 11 period, Central Asia and the Caspian Basin gained a huge importance and the U.S. is watching Iran's efforts to increase its influence in the region closely. Regarding the Turkish-Iranian natural gas agreement, the U.S. did not apply pressure to prevent the signing of the agreement despite the negative statements of some U.S. officials.

The natural gas agreement with Iran offers Turkey the opportunity to establish a link between the U.S. and the Islamic Republic of Iran. The United States has had problematic relations with Iran since 1979. Turkey has an advantage to attract Iran into dialog with international actors and create a bridge between the United States. Having its indispensable relations with the United States, and economic and political advantages gained with the natural gas agreement with Iran, Turkey has to square addressing both parties' concerns to reach a compromise. Such a compromise has political benefits beyond their economic benefits, such as stability and conflict resolution. Therefore, Turkey has to promote dialog among parties in the region, mainly with Iran due to its increased dialogue with the gas agreement and improve successful strategies to achieve interdependence.

Furthermore, Turkey might decrease the Russian influence on Turkey in the North by diversifying the gas supplies through Iran. The Iranian gas deal with Turkey is not in Russia's interest, since Russia is currently the major gas supplier of Turkey. Hence, Turkey has also to determine for some effective strategies on Russian front.

The Turkish energy policy is mainly concentrated on assurance of energy supply, reliability, sufficiency and quality of the sources. Diversification of energy sources of Turkey gained more priority. The energy need of Turkey is increasing dramatically and demands new energy options. According to some projections, the energy demand of Turkey in 20 years following 1998 will increase four fold, natural gas demand five fold until 2010, and eight fold until 2020.<sup>4</sup>

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<sup>4</sup> Ziya Aktaş, "Energy for Turkey and the Rest of Western World in the Next Decades," *Center for Strategic & International Studies*, 7 May 1999. <http://www.csis.org/html/sp990507Aktas.html>. Accessed 19 November 2003.

The dramatic increase in Turkish domestic need and Iran's vast natural gas reserves bring demand and supply scenarios together. Turkey's natural gas demand and the demand from Europe for diversified supplies in natural gas make Iranian alternative inevitable.

In political sense, Turkey is unlikely to cease seeking a larger role in the region. Turkey's geostrategic position makes it the shortest, the easiest, the most economical and the most stable passage between Europe, the Middle East and Caspian energy sources.

Domestically, the crises that Turkey suffered in last decade and the instability in its economy required new opportunities to mitigate the situation. Iran emerges as an advantage for such opportunities regarding the oil and gas resources as well as potential commercial relations, and turns into a trump card for Turkey and the United States against Russia's economic dominance in the Caspian Basin and Central Asia.

Turkey must keep the advantages emerging from the natural gas cooperation with Iran in foreground and support new projections in favor of this agreement. What can be new prospects to strengthen the natural gas agreement between Turkey and Iran? Regarding Turkey's long term relations with the U.S., how could Turkey square the issue to overlap American and Iranian interests? To answer these questions, some findings are listed below:

- Turkey's Iran alternative may complicate the relations between the countries in the region including Syria, Iran, Armenia and Russia. It may also complicate the alliances between Russia, Iran and Armenia, and the U.S., Turkey and Azerbaijan. The Turkish-Iranian gas agreement may benefit the U.S. in achieving its objectives in Central Asia and the Caspian. While helping Turkey politically and economically, the gas agreement between Turkey and Iran can offer the Former Soviet Republics an outlet for the exports in oil and gas creating an alternative to Russian option, a U.S. interest in Central Asia and the Caspian.
- The normalization of the U.S.-Iran relations has not been possible since the Islamic Revolution. Persuading Iran to adopt more reformist line in international arena depends on the dialogue between Iran and other states,

especially the EU, since Iran is not likely to interact with the U.S. in the short term. The economic ties between Turkey and Iran can help increase the interaction through improved economic ties among Iran, Turkey and the EU and may help Iran's openness in the long term.

- Because Europe desires to access the Iranian natural gas to diversify the gas supplies, Turkey's increased role for the European energy corridor can increase Turkey's significance for the EU and raise the prospects for Turkey's full membership to the European Union. Turkey is the only option as transit country for Iran's oil and gas exports to Europe.
- Iran, having chosen the cooperation with "secular" Turkey, already undermined its ideological stance, because Iran has a substantial economic interest in maintaining good relations with Turkey. Since such attempts would strain the relations between two countries, Iran is not likely to risk the only viable option to sell its natural gas to Europe. Therefore, this cooperation benefits Turkey in national security sense, because Iran is not likely to pose a threat regarding spread of Islamic fundamentalism.
- Turkish-Iranian natural gas pipeline may complicate Iran's relations with Russia. Lack of economic options due to U.S. sanctions and pressure, Iran pays a special attention to maintain good relations with Russia. Currently, Russia is the only option for the Turkic republics in Central Asia and the Caspian. However, Iran offers an alternative the Russian pipelines and undermines the Russian monopoly through Turkish-Iranian gas pipeline. Therefore, Russian-Iranian relations may become more complicated, perceive each other as rivals and persuade Iran to seek new opportunities elsewhere than Russia.
- Interdependence is the key term to explain the consequences of the Turkish-Iranian natural gas agreement. It not only complicated the national calculations of the regional actors, but also tied the regional and global actors together directly or indirectly even though many of them had disputes with each other. The U.S. did not harshly oppose the Turkish-

Iranian gas agreement despite the U.S. sanctions against Iran, since the pipelines offered Central Asia an alternative to decrease the Russian dominancy. Even though Iran was the stronghold of the Shi'i Islam ideology, it avoided an ideological approach in relations with Turkey and Central Asian Turkic states. The Turkish-Iranian gas agreement not only increased the economic and political cooperation among regional countries, but it also tied Iran and Central Asia to Greece and Europe. Greek-Iranian cooperation in natural gas created interdependence between Turkey, Iran and Greece, and reduced chronic political tensions.

The question that the thesis seeks an answer is “how Turkey will deploy its Iranian natural gas cooperation to establish the interdependency among countries in the region such as Iran, Russia and New Independent States (NIS), while making the agreement to serve the U.S. objectives that overlap with those of Turkey.

The sub-questions that frame this inquiry are:

- What are the dynamics of the Turkish-Iranian relations? What were the controversial issues in the past, and do they still exist today?
- What is the natural gas need of Turkey? Why does Turkey need the natural gas?
- What are the advantages of natural gas deal with Iran? Is there any benefit that the natural gas agreement with Iran will/may deliver a contribution to Turkey's future in the long term?
- Regarding the American and Russian presence in the region, what are the risks or difficulties of this cooperation? What are the concerns and proper strategies for Turkey to overcome them?

In order to answer these questions, Chapter II examines the past of the Turkish-Iranian relations, stresses controversial issues, and examines Turkey's reasons to turn to Iranian natural gas. Chapter III examines the advantages and the benefits that the gas agreement provides in favor of Turkey. Chapter IV illustrates the concerns of Iran, Russia

and the United States, which might undermine Turkey's interest in other areas such as the Caspian and Central Asia. In addition to that, I shall examine the strategies that Turkey should follow vis-à-vis the U.S. and Russian factor in the region.

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## **II. TURKEY AND IRAN: RELATIONS IN THE HISTORY AND TODAY'S ENERGY COOPERATION**

The purpose of this chapter is twofold: to figure out the characteristics of the Turkish-Iranian relationship by looking at the historical facts between two countries, and to examine the reasons of Turkey's preference for the Iranian natural gas.

Figuring out the characteristics of the bilateral relations between Turkey and Iran is important to determine whether those criteria can be applied to today's relations and thus help predicting the tendencies of both countries. Therefore, looking at the historical experiences between Turkey and Iran will explain the dynamics in bilateral relations between the two countries.

### **A. THE PAST OF TURKISH-IRANIAN RELATIONS**

The basic structure of the Turkish-Iranian relations can be explained by two important time frames: the pre-revolutionary period before February 1979, and the period of the Islamic Republic of Iran. In the beginning of the 21<sup>st</sup> Century, there are some characteristics that go back to the history of the two countries. During the Shah's reign, Turkey and Iran shared some common values and concerns that shaped the character of the bilateral relations between two countries. These included security perceptions, traditional competition between two countries and mutual recognition of each other's interest.

The first characteristic was related to territorial integrity. On the one hand, Iran had a large Azeri population as an internal concern and Iraq as an external threat. On the other, Turkey was concerned over the Kurdish population in Iraq and had Greece as a source of external tension in the Aegean Sea and Cyprus. The second issue was related to the historical character of the bilateral relations. Like the Ottoman and Safavid Empires, Turkey and Iran perceived each other as a rival, even though they had friendly relations. The major indicator of competition during the period of Shah Mohammad Reza Pahlavi was the lack of cooperation between two countries. Shah preferred to link Iran to Western countries, while keeping the economic and political relations with Turkey in a low profile. As a third characteristic, both countries recognized each other's interest, and avoided any confrontation, since they were two well-balancing entities. Finally, both

countries agreed on some basic principles, such as independence from foreign forces, secularism, and devotion to the status quo in the region.

Economically, the Shah's Iran was not a neighbor willing to cooperate with Turkey. Mohammad Reza Pahlavi, as the ultimate ruler, preferred relations with the West and non-neighboring countries, such as India, over neighbors, such as Turkey and Pakistan. Moreover, he was almost paranoid about the developments in neighboring countries as he displayed skepticism indicated in an interview with Mike Wallace before the Islamic Revolution in Iran. During that interview, the Shah expressed that "if we [Iran] were weak, that would be an invitation to wars", even though Iran was a close U.S. ally and could easily receive help from the United States against any external threat.<sup>5</sup> The competitive character of the Turkish-Iranian relations also emerged in the economic field and was maintained throughout the Shah's period. Despite regional agreements, such as the RCD (Regional Cooperation and Development Organization), the fruitful policies could not be implemented in reality.

The energy issues did not also end up with cooperation between two countries before the Islamic Revolution. Shah Mohammad Reza Pahlavi basically aimed to cooperate with the western countries and maximize Iran's revenues through increased oil prices during and after the oil crisis in 1973. Due to a desperate need for oil and gas, Turkey turned to the Soviets to satisfy its demand, because Iran did not have extensive oil and gas trade with Turkey.

Following the Islamic Revolution in Iran in 1979, the relations between Turkey and Iran increased on political and economic levels for two reasons: the need to consolidate the Islamic regime and the emergence of the Iran-Iraq War. The benefits that Turkey's geographic location offered to Iran prevailed over Iran's ideological approach and persuaded both countries to follow a pragmatic policy to each other while ignoring their ideological divergences. Despite occasional political frictions, such disputes did not prevent either country from having good economic relations in general.

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<sup>5</sup> Mike Wallace, "20<sup>th</sup> Century with Mike Wallace, Crisis in Iran," Documentary Video by History Channel, (New York: CBS News Productions, 2001).

In an economic sense, there was a significant shift in Iran from avoiding cooperation with Turkey in the post-Revolutionary period. The trade in goods and oil increased dramatically compared to the pre-revolutionary period. Despite a decline from the second half of 1980s until early 1990s, the economic relations proved to be more extensive than those in the pre-1979 period.

In the beginning of 1990, the disintegration of the Soviet Union set new conditions for a new political and economic environment. The competition between Turkey and Iran emerged during this time regarding the vast natural oil and gas resources in Central Asia and the Caucasus. Though two countries were rivals, each trying to increase its influence in the newly emerging republics, both countries came to realize that they were bound to cooperate with each other by recognizing their own limits in being able to achieve their individual objectives. Turkey offered the shortest export route to Europe for the Central Asian and Caucasus republics, while Iran had to be taken into consideration to facilitate the pipeline prospects from Central Asia to Turkey. Thus, larger cooperation between Turkey and Iran to the agenda to benefit from the former Soviet republics, which would lead both countries to a natural gas pipeline agreement as I shall explain in Chapter III.

### **1. Relations before the Islamic Revolution in Iran: “Shah’s Period”**

Turkish-Iranian relations during Shah Mohammad Reza Pahlavi’s term in the 60s and 70s were quite similar to their relations during his father’s period. In political terms, while Turkey pursued a republican constitutionalism unlike Reza Shah’s absolutist monarchy, both countries shared secular values, both aimed at “westernization” promoting the economic growth and both had “unfriendly neighbors” raising their own national security concerns in the region.<sup>6</sup> Turkey and Iran’s security perceptions basically stemmed from the insecurity that each perceived regarding their neighbors. While Turkey’s security concern focused on the Greek “hostilities” in the West, Iran was trying to deal with Nasser’s “Arab nationalism” that was threatening the monarchies in the Persian Gulf. In general, even though Turkey and Iran maintained a degree of suspicion

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<sup>6</sup> John Calabrese, “Turkey and Iran: Limits of a Stable Relationship,” *British Journal of Middle Eastern Studies*, 1998, Vol.25, No.1, pp.75-76.

towards each other, they had a relatively better confidence with each other than compared to their other neighbors.<sup>7</sup>

In character, the Turkish-Iranian relations had been subject to tensions and competition because of the heritage of their two preceding entities, the Ottoman and Safavid-Qajar Empires. This heritage eventually brought them into a competitive mode in which each sought to raise its role to one of regional leadership. When the Iranian Islamic Revolution took place in 1979, the trade between Turkey and Iran was almost zero and was an indicator for the lack of cooperation. Turkey and Iran shared the same isolation from the Arab world to the extent that they were two “non-Arab” countries, but this shared feature did not become a reason to intensify their bilateral economic relations between two countries. Therefore, both of them intensified their efforts to establish good relations with the West, especially the United States. Because both countries pursued separate policies with the U.S. and Europe instead of developing shared economic and political positions through CENTO (Cold War’s Central Treaty Alliance) or RCD (Regional Cooperation and Development Organization), the bilateral trade between Turkey and Iran was negligible.<sup>8</sup>

However, Turkey and Iran managed to maintain a “peaceful” relationship for two reasons. First, Iran and Turkey recognized the “long-term balanced” nature of the relations between the Ottoman and Persian Empires which had created two autonomous entities in the geographic areas of Turkey and Iran in the past. This led Turkey and Iran to respect their mutual interests and maintain a level of “decent” relations. Second, the long tradition of power balance between the Ottomans and Persians ensured the boundaries between Turkey and Iran. Given the fact that the Turkish-Iranian border is one of the oldest borders in the world, the long history of stable border relations persuaded Turkey

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<sup>7</sup> Michael B.Bishku, “Turkey and Iran During the Cold War,” *Journal of Third World Studies*, Spring 1999, Vol.16, No.1, p.13, and 21-22.

<sup>8</sup> See , “Turkey and Iran During the Cold War,” *Journal of Third World Studies*, Spring 1999, Vol.16, No.1, p.14. Also, Ünal Gündoğan, “Islamist Iran and Turkey, 1979-1989: State Pragmatism and Ideological Influences,” *MERIA-Middle East Review of International Affairs*, March 2003, Vol.7, No.1. <http://meria.idc.ac.il/journal/2003/issue1/jv7n1a1.html>. Accessed 5 May 2004.

and Iran not to worry about the other's intentions. Neither of them threatened each other's security.<sup>9</sup>

Iran was in agreement with the "main pillars" of the Turkish Republic's basic foreign policy principles. First, both countries resisted territorial demands regardless of who claimed them (e.g. the British and the Russians). Second, Turkey opposed religious claims and participation in any international alliance on the basis of common religion, as the Shah had also pursued a secular path in Iran. Third, Turkey opposed to any irredentist idea referring to the Muslims living in the Soviet Union, as Iran denied any disintegration of its northern Azeri populated territory. Fourth, Turkey put its first priority on multilateral sponsorships and financial support for the international economic and military integration denying the superpowers' dominance, such as the Soviet Union and the United States. Iran and Turkey sought to sign pacts with the regional countries, such as those in the RCD. Both countries tried to modernize and "Westernize" their country in an independent manner. Therefore, both countries' foreign policy objectives were close enough to create an environment for friendly relations.<sup>10</sup>

In the beginning of the Cold War, the political fortunes of Turkey and Iran went into different directions. Turkey's and Iran's quest in aligning with the West against a possible Soviet threat in the region brought a special position only to Turkey, which was a lot more advantageous than that of Iran. Turkey not only obtained NATO membership, but also received a significant amount of military aid against the communist threat surpassing Iran's military capability and arousing Shah's envy and desires for more arms acquisition.<sup>11</sup>

The 1970s gave a new momentum to the Shah's desire for arms acquisitions due to the Soviet-American Détente. While Turkey and Iran came closer regarding regional issues, such as regional sources of insecurity, Iran and Turkey had already joined to Pakistan to establish RCD. The aim was to increase economic and political cooperation

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<sup>9</sup> Philip Robins, *Turkey and the Middle East*, (New York: Council of Foreign Relations Press, 1991), pp.20-21.

<sup>10</sup> Richard D. Robinson, *The First Turkish Republic*, (Cambridge, Massachusetts: Harvard University Press, 1963), pp.172-176.

<sup>11</sup> John Calabrese, "Turkey and Iran: Limits of a Stable Relationship," *British Journal of Middle Eastern Studies*, 1998, Vol.25, No.1, pp.76-77.

among themselves with the political support of the United States. Throughout the 1970s, the Shah increased his efforts further to become a regional power by acquiring massive arms.<sup>12</sup> His efforts to acquire “massive arms” were not solely based on his security perceptions. After Russia signed treaties of friendship with India and Iraq in 1970 and 1971, Iran perceived that as an “encirclement” by Russia and its allies and favored Turkey. In the mid-1970s, when the U.S. imposed arms embargo against Turkey, the Shah said in an interview that “the U.S. had to remove the arms embargo against Turkey, if they wanted to improve the security in the Middle East.”<sup>13</sup> Even though Shah favored Turkey, his massive arming raised the Turkish concerns. However, Iran’s economic interest and the military power in the Persian Gulf eased the Turkish concerns, and proved that Iran was a “regional status-quo” player for Turkey.<sup>14</sup>

## **2. Economic Relations During Shah’s Period:**

In economic terms, Turkey and Iran engaged each other under a regional cooperation organization, the RCD. Pakistani President Ayub Khan, Turkish President Cemal Gürsel and Shah Muhammad Reza Pahlavi met in Istanbul in July 1964 and established the RCD. According to Pakistani President Ayub Khan, “the treaty would be as important for them in the long run as the European Economic Community (EEC) was for the nations in Western Europe”. However, even though Turkey was anxious about the agreement’s impact on Turkey’s chance to join the EEC, such as reducing the importance of becoming an EU member for Turkey, it signed the treaty to increase the cooperation with the region countries.<sup>15</sup>

Despite the fact that the purpose of the RCD was to achieve cooperation, especially in economic sphere, it did not work as anticipated. The achievements of the RCD from 1964 until 1979 proved to be insignificant. The economic relations between Turkey and Iran before RCD’s establishment were quite limited. Iran’s 0.7% of total

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<sup>12</sup> John Calabrese, “Turkey and Iran: Limits of a Stable Relationship,” *British Journal of Middle Eastern Studies*, 1998, Vol.25, No.1, p.77.

<sup>13</sup> See, David Housego, “Look to Thy Neighbor,” *The Economist*, 28 August 1976, p.17. Also, Michael B.Bishku, “Turkey and Iran During the Cold War,” *Journal of Third World Studies*, Spring 1999, Vol.16, No.1, p.24.

<sup>14</sup> John Calabrese, “Turkey and Iran: Limits of a Stable Relationship,” *British Journal of Middle Eastern Studies*, 1998, Vol.25, No.1, p.77.

<sup>15</sup> Michael B.Bishku, “Turkey and Iran During the Cold War,” *Journal of Third World Studies*, Spring 1999, Vol.16, No.1, p.23.

imports and 4 % of total exports to Turkey were small enough, whereas Turkey's total imports from Iran were only 2.2% and exports negligible. The RCD did not change this picture very much. After the signing of the RCD, only nine of seventy seven authorized projects under RCD were realized. The trade volume between Turkey, Iran and Pakistan was only 2 percent of the RCD members' total foreign trade, contrary to expectations, which were to increase cooperation among Turkey, Iran and Pakistan. Thus, Turkey and Iran developed relations with each other only when it suited their particular interest.<sup>16</sup> This was mainly because the Shah wanted to "bypass" Turkey in his economic relations with the West.<sup>17</sup> Iran aimed to develop links with the West that would benefit Iran in the future without involving Turkey. Many of them were based on the pipeline prospects, such as the agreements for \$40 billion with the United States, \$6 billion with France, \$3 billion with Italy and \$1 billion with the United Kingdom.<sup>18</sup>

Iran's quest to find new partners in economic cooperation and heavy spending on defense neither mitigated Iran's isolation problem, nor bolstered Iran's independence. Iran sought economic partnership with India from which Iran bought cement and sugar and sold oil in return. However, a combined economic operation between Turkey, Pakistan and Iran through the RCD was more likely to come to benefit those three countries regarding their proximity to each other, which would increase the coordination among them. Iran had the potential to improve its trade by linking itself to Europe through Turkey, and India through Pakistan. It could sell oil and gas to Europe, Pakistan and Turkey, which were desperately short of oil and gas resources. However, Iran preferred not to give priority to the RCD projects and thus, weakened the prospects for interdependence. For instance, when Turkey and Pakistan agreed to build a ball bearing factory in Karachi, Iran decided to build its own factory in Tabriz and tried to protect its production by tariffs against the Karachi production. Three developing countries could maximize their efforts by improving complementary economies. Nonetheless, such prospects failed to create cooperation between Turkey and Iran due to the Shah's ambitions to become "self-sufficient" in all fields, concentrating his spending on

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<sup>16</sup> Michael B. Bishku, "Turkey and Iran During the Cold War," *Journal of Third World Studies*, Spring 1999, Vol.16, No.1, pp.23-24.

<sup>17</sup> Andrew Mango, *Turkey: The Challenge of a New Role*, (Westport, CT: Preager, 1994), p.116.

<sup>18</sup> David Housego, "Look to Thy Neighbor," *The Economist*, 28 August 1976, p.17.

domestic industrial enterprises, but also anything else. For Turkey, being Muslim and “next door” did not work, because the Shah looked around for more promising partners, such as India. The difficulty in economic relations with India was that Iran did not have a direct land route to India.<sup>19</sup>

### **3. Energy Relationship Between Iran And Turkey Before 1979**

In energy terms, Iran and Turkey did not have extensive cooperation, because the Shah usually engaged in oil and gas sales with countries that could afford the higher prices, such as the United States, Europe and Japan. In January 1974, when the oil producing countries quadrupled the oil prices as a result of the Shah’s efforts, Iran’s Shah saw this moment as an opportunity to convert his “rural” country into an “industrialized” nation and a “dominant force” in the Persian Gulf. Iran at that time pursued a pragmatic approach, did not join the “oil embargo” and maximized their economic benefits by oil sales. The Shah argued that Iran would “not mix the economics to the politics unless they would be directly attacked and was not interested where the oil was going once the oil tanker was loaded.”<sup>20</sup>

The effects of the oil crisis in 1973-74 had a long lasting impact on keeping the prices high prices, and this was easily exploited by Iran. It was especially useful for Iran, because it was short of funds and tried to solve this problem by encouraging the increase of the oil prices to be able to afford Iran’s huge spending to become an industrial country. In an interview in 1976, the Iranian Ambassador, Ardeshir Zahedi, said that “Iran had to keep increasing the oil prices, since the commodities, which Iran had to import, were increasing in amount as well as in prices”. He also admitted that Iran was a “borrower” due to a large spending rate. In order to afford it, Iran would encourage the increase in the oil prices.<sup>21</sup>

During the 1970s, Iran put a priority in weapon purchases seeing the Soviet weaponry in Iraq as a threat in the Persian Gulf. Instead of spending to further

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<sup>19</sup> See, David Housego, “Look to Thy Neighbor,” *The Economist*, 28 August 1976, p.17. Also, *The Economist*, “India and Iran; Regional Barter,” 11 February 1978, p.93.

<sup>20</sup> Business Week, “Recession’s Impact on Iran,” *Interview with Shah Mohammad Reza Pahlavi*, 17 November 1975, p.56.

<sup>21</sup> U.S. News & World Report, “Why Price of Mideast Oil Is Likely To Go Up?,” 12 January 1979, p.51.

petrochemical industry's development, the Shah was more interested in having the most sophisticated weaponry in the region.<sup>22</sup> Even when Iran was challenged by the U.S. Presidents Nixon and Ford due to future concerns of the large Iranian arms purchases, the Shah of Iran challenged back by stating that he "would fulfill his needs from elsewhere".<sup>23</sup>

Regionally, Turkey was also trying to industrialize its economy. However, Turkey was an energy importer and dependent on outside sources for oil and gas. The competitive character of the relations between Turkey and Iran as mentioned before might be one of the reasons that drove the Shah to explore other options rather than cooperating with Turkey. However, it is worth to note that high gas prices also hurt the Turkish economy preventing it from interacting economically with Iran. Competing to have "good" relations with the West, Iran took advantage using its gas supply.

When European customers suffered from the increase in the oil prices in 1974, they directed themselves towards natural gas and created a good market for the Shah's natural gas. Natural gas had never been inexpensive energy, but it became a "relatively cheap" source of energy compared to oil, according to the director general of Italy's state-owned petroleum company, ENI's transportation and distribution branch. Because the oil prices were unlikely to drop, the demand for natural gas increased dramatically and shifted Europe from being self-sufficient to a 15-25% gas importer in the future. The largest share in natural gas supplies belonged to Iran with a production of 700 billion cubic feet annually by 1979 in agreement with Belgium's Bistrigaz Company. Another large deal involved the transfer of 450 billion cubic feet through Russian territory to Czechoslovakia, or it would be traded with the Soviet Union. Italy was willing to use Turkish territory for natural gas pipelines, yet; it failed due to lack of financing for the project. Thus, none of the deals between Iran and European countries were successful in raising the issue of natural gas transports through Turkey, but Italy left a conceptual idea as legacy that raised the prospects for pipelines between Iran, Turkey and Europe.<sup>24</sup>

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<sup>22</sup> Chemical Week, "Mideast Revisited: Flattening Sand Slowly," 23 March 1977, p.29.

<sup>23</sup> Daniel J.Balz, Richard Corrigan and Robert J.Samuelson, "Muffling The Arms Explosion," *The National Journal*, 2 April 1977, Vol.9, No.14, p.496.

<sup>24</sup> Business Week, "Gas Prices Soar into the Big Time," 10 February 1975, p.39.

Turkey played the Russian card by establishing economic links with the Soviet Union, especially for oil, because Turkey lacked enough commercial activities with Iran and the West. Between 1965 and 1975, both countries doubled their trade volume. Turkey signed a contract with the Soviet Union in 1978, which would provide Turkey three billion tons of oil in the following three years constituting the one fifth of Turkey's need. The contract was signed as a barter agreement in which Turkey would pay for oil as wheat and metals. The signing of agreements between Turkey and the Soviet Union was also a result of the strained relations between Turkey and the United States following the arms embargo on Turkey due to Cyprus. Moreover, the RCD had already proven to be insufficient in its ability to provide economic and security cooperation with Iran and Pakistan. Turkey had to seek new alternatives to increase its security and economy outside of RCD and western bloc stressing, however, that "it would not effect Turkey's relations with the West".<sup>25</sup>

In the late 1970s, Iran agreed to sell oil to Turkey following the agreements signed between Turkey and the Soviet Union. Increased cooperation between Turkey and Russia might also be regarded as a reason for the Shah's turn towards Turkey to improve the relations and thus, balance the Soviet relations with Turkey. According to the agreement between Turkey and Iran, Turkey would purchase 1 million tons of crude oil and 500 thousand tons of furnace oil reimbursing the cost in agricultural products as well as cement and glass.<sup>26</sup> That was Turkey's last economic activity with the Shah's Iran. Thus, the Shah's period ended with no significant economic and political cooperation between two countries. Turkey's difficulties with its balance of payments, and Iran's heavy dependence on the oil revenues and desires to buy massive arms stayed intact. Iranian need for cash on the one hand, and Turkish need for the oil and commercial activities on the other continued on each side of the border of two developing neighboring states leaving possibilities for further economic and political cooperation to the future of the two countries.<sup>27</sup>

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<sup>25</sup> Facts on File World News Digest, "Ecevit Visits Moscow, Signs Pacts," 4 August 1978, p.595 F1.

<sup>26</sup> The Xinhua General Overseas News Service, "Iran, Turkey Strengthen Economic Cooperation," 5 July 1978.

<sup>27</sup> Unal Gundogan, "Islamist Iran and Turkey, 1979-1989: State Pragmatism and Ideological Influences," *MERIA-Middle East Review of International Affairs*, March 2003, Vol.7, No.1. <http://meria.idc.ac.il/journal/2003/issue1/jv7n1a1.html>. Accessed 5 May 2004.

#### **4. 1979 Iranian Revolution and Turkish-Iranian Relations**

Politically, Turkey's relations with Iran after the Islamic Revolution in 1979 can be examined in two steps. The first part was the period from 1979 until 1988. This period was concentrated mainly on two issues: the establishment and consolidation of the Islamic Republic of Iran and the Iran-Iraq War. The second part was the era after 1988 until today. 1988 marked the end of the Iran-Iraq War. Even though Iran followed a compromising policy over its ideology during the Iran-Iraq War, the end of the war brought some ideological differences to the surface between Iran and Turkey and strained relations in the political sense.<sup>28</sup>

The Iranian Revolution in 1979 did not undermine the relations between Turkey and Iran during the Iran-Iraq War period, contrary, both countries had common and special interests in maintaining good relations following the establishment of the Islamic Republic. There were three factors that pushed Turkey and Iran closer. First, Turkey took some "judicious" steps. During Iran's internal conflict, Turkey stayed neutral and Turkish officials refrained from making any statement that would either favor the Shah or the revolutionaries as a traditional Kemalist approach.<sup>29</sup> After this "wait and see" policy, the Turkish Government immediately recognized the Iranian Regime following the revolution on February 14, 1979 and did not try to intervene to affect the outcome of the revolution. As the last judicious political step, Turkey condemned the takeover of the U.S. embassy by the Iranian students, but did not join the economic sanctions imposed by the United States, keeping in mind that Iran promised economic cooperation with Turkey. Turkey also opposed to the use of İncirlik Air Base by the U.S. for the hostilities against Iran. This decision was also effected by the U.S. arms embargo between 1974 and 1978 against Turkey.<sup>30</sup>

Second, the outbreak of the Iran-Iraq War and the neutrality of Turkey towards the both sides prevented any exacerbation in relations between Iran and Turkey. Iran

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<sup>28</sup> Philip Robins, *Turkey and the Middle East*, (New York: Council of Foreign Relations Press, 1991), pp.53-55.

<sup>29</sup> Ünal Gündoğan, "Islamist Iran and Turkey, 1979-1989: State Pragmatism and Ideological Influences," *MERIA-Middle East Review of International Affairs*, March 2003, Vol.7, No.1. <http://meria.idc.ac.il/journal/2003/issue1/jv7n1a1.html>. Accessed 5 May 2004.

<sup>30</sup> Philip Robins, *Turkey and the Middle East*, (New York: Council of Foreign Relations Press, 1991), pp.53-54.

refrained from ramification to their ideology for Turkey, because Turkey did not pursue hostile policies towards Iran during the War. The Turkish neutrality policy also discouraged Iran from using the Kurdish card against Turkey as a means for instability as Iran had used in Iraq during the war. Throughout the war, Turkey obtained many economic opportunities, since Iran encouraged Turkey's neutrality by providing economic opportunities as Iraq did. For Iran, Turkey was the outlet to break the isolation as the Iranian Foreign Minister in 1984, Ali Akbar Velayati, expressed "Iran's happiness for Turkey's neutrality" and wished "Turkey to continue it". More to the point, Turkey was too valuable to risk for Iran throughout the Iran-Iraq War.<sup>31</sup>

Third, both countries feared of possible Soviet infiltration in the region during the early stages of the Islamic revolution that would undermine Turkish and Iranian interests and stability. A communist intervention or takeover in Iran was the Turkish concern when huge street demonstrations and attacks against the military assets in big cities occurred. Therefore, Iran downplayed the ideological path over the decent relations with Turkey.<sup>32</sup>

In their political bilateral relations, Turkey and the Islamic Republic of Iran had some tensions, which eventually were solved by both sides. The first controversial issue between Turkey and Iran following the Islamic revolution became the large number of the Iranian refugees, which were estimated to be around 250.000 according to the New York Times in 1982.<sup>33</sup> Turkey was worried about Iranian groups, which were nationalist, monarchist and leftist, because they opposed the Islamist regime, attracted Iran's attention and turned into a matter in the bilateral relations between Turkey and Iran.<sup>34</sup> Turkey's concerns were raised even more when the Iranian Secret Service tried to kidnap

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<sup>31</sup> Ünal Gündoğan, "Islamist Iran and Turkey, 1979-1989: State Pragmatism and Ideological Influences," *MERIA-Middle East Review of International Affairs*, March 2003, Vol.7, No.1. <http://meria.idc.ac.il/journal/2003/issue1/jv7n1a1.html>. Accessed 5 May 2004.

<sup>32</sup> Ünal Gündoğan, "Islamist Iran and Turkey, 1979-1989: State Pragmatism and Ideological Influences," *MERIA-Middle East Review of International Affairs*, March 2003, Vol.7, No.1. <http://meria.idc.ac.il/journal/2003/issue1/jv7n1a1.html>. Accessed 5 May 2004.

<sup>33</sup> Marvine Howe, "Reports of Armed Iranian Exiles In Eastern Turkey Are Discounted," 5 April 1982, p.10.

<sup>34</sup> Ünal Gündoğan, "Islamist Iran and Turkey, 1979-1989: State Pragmatism and Ideological Influences," *MERIA-Middle East Review of International Affairs*, March 2003, Vol.7, No.1. <http://meria.idc.ac.il/journal/2003/issue1/jv7n1a1.html>. Accessed 5 May 2004.

a prominent member of the Iranian opposition and smuggle him back to Iran. This event indicated that Iranian secret service agents were operating in Turkey and working with Iranian groups on Turkish soil.<sup>35</sup> As a response, Iran accused Turkey for harboring and supporting the anti-regime Iranian activists positioned in Turkey including, especially Mudjahedin Al-Khalq. Ironically, among them were also the agents of Islamic Republic of Iran (IRI) according to anonymous claims.<sup>36</sup>

The second issue was the Islamic rhetoric that Iran used against Turkey's secular principles. Such rhetoric raised Turkey's concerns of Iranian support for Islamic elements in Turkey. When the Iranian diplomats visited Turkey in 1987, they refrained from visiting the mausoleum of Atatürk in Ankara. In 1988, the Iranian Embassy refused to lower their flag to half stall on the 50<sup>th</sup> Anniversary of the Turkish Republic's leader's death. Turkey's perceived Islamic concern especially became clear after the Turkish Supreme Court's ban of wearing the headscarf in the universities in 1989. There were demonstrations and protests in the streets that persuaded Turkey to believe that Iran was behind the Islamist groups in Turkey. Khomeini publicly expressed his critiques against Atatürk's reforms defending the rule of God and the prophet over the "rule of Atatürk". The Iranian Ambassador to Turkey, Manoushehr Mottaki, stated that Iran was thinking about economic sanctions against Turkey. Turkey responded firmly, pulled the Turkish Ambassador from Tehran. However, the effects of the Islamic rhetoric did not last long and relations returned to normal for two reasons. Ayatollah Khomeini died in 1989, and the new government led by Hashemi Rafsanjani disregarded the revolutionary rhetoric and put priority on the economic aspects of the bilateral relations. The Turkish Government also did not take the sanctions threat very seriously, because they knew that Iran needed Turkey as an economic outlet.<sup>37</sup>

Third issue for friction in bilateral relations was the Turkish concerns about possible Iranian support for the political violence of the Marxist separatist organization,

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<sup>35</sup> Philip Robins, *Turkey and the Middle East*, (New York: Council of Foreign Relations Press, 1991), p.56.

<sup>36</sup> John Calabrese, "Turkey and Iran: Limits of a Stable Relationship," *British Journal of Middle Eastern Studies*, 1998, Vol.25, No.1, p.78.

<sup>37</sup> See, Shireen T.Hunter, *Iran and The World*, (Bloomington & Indiana: Indiana University Press, 1990), p.137. Also, Philip Robins, *Turkey and the Middle East*, (New York: Council of Foreign Relations Press, 1991), pp.55-56.

PKK. PKK had intensified its activities in 1983 on the borders of Iraq. After Turkey and Iraq agreed to sign the “hot pursuit” agreement about allowing operations on both sides of the Turkish-Iraqi border, the Turkish Armed Forces conducted their first operation in May 1983, and Iran strongly opposed Turkish operations near Iranian border. In October 1984, after some groups of PKK members fled to Iranian soil, Turkish delegation visited Iran hoping to have the same cooperation agreement as Turkey had with Iraq. Though Iran opposed the Turkish military operations, they signed an agreement, because Iran did not want to alienate Turkey regarding the Iran-Iraq War.<sup>38</sup>

After the Gulf War, Iran had new concerns regarding the Kurds in Iraq. Unlike Turkey, Iran opposed the use of the Turkish bases by the American military assets for Operation Provide Comfort, which was to protect the Kurds from Saddam Hussein. For Iran, the United States could maintain its military presence close to the Iranian borders through the Operation Provide Comfort and pose a threat to Iran’s integrity regarding its Kurdish minority. It was also a dilemma for Turkey. Despite being uneasy with the presence of the foreign troops on the Turkish soil, Turkey could not take the risk of the refugee flow from northern Iraq.<sup>39</sup>

Finally, the divergence between the Turkish and Iranian approaches to the Middle East Peace Process was a disagreement in bilateral relations starting from the early 1990s. Iran was weary of the improving relations between Turkey and Israel in the aftermath of the 1993 signing of the Israeli-Palestinian Declaration of Principles. From the Iranian perspective, the Turkish-Israeli military agreement that was signed in April 1996 would serve Zionist aims in the Middle East. Iranian executive elite claimed that Israel was trying to create problems between Turkey and Iran. Moreover, Turkey would let Israel use its territory as its backyard and Israeli specialists would be able to watch the Iranian border. Iranian anxiety went even further when it became evident that the economic cooperation could also include Azerbaijan. Iran was concerned about its territorial integrity regarding its Azeri population in northern Iran. Thus, Iran perceived Turkey as

<sup>38</sup> Ünal Gündoğan, “Islamist Iran and Turkey, 1979-1989: State Pragmatism and Ideological Influences,” *MERIA-Middle East Review of International Affairs*, March 2003, Vol.7, No.1. <http://meria.idc.ac.il/journal/2003/issue1/jv7n1a1.html>. Accessed 5 May 2004.

<sup>39</sup> Henri J.Barkey, “Iran and Turkey: Confrontation Across and Ideological Divide,” *Regional Power Rivalries in the New Eurasia*, (New York: M.E.Sharpe, 1995) Ed. Alvin Z.Rubinstein and Oles M.Smolansky, p.160.

“Westoxicated” as Gharbzadegi characterized in 1960s and heavily influenced by the United States, given its western and secular ideology, according to Bulent Aras.<sup>40</sup> In spite of all strains in mutual relations between Turkey and Iran, none of them abandoned their interests in their relations to receive benefits, which led both to pragmatic policies.

## **5. Economic Relations with the Islamic Republic of Iran:**

Economically, the bilateral relations between Turkey and Islamic Republic were better than the relations during the Shah’s period. Turkey’s exports to Iran increased dramatically from \$45 million in 1978 to 1.088 million in 1983 surpassing even the trade volume with Germany; Turkey’s largest trade partner.<sup>41</sup> Even though Turkey and Iran had divergent foreign policies and political mistrust towards each other, neither of them wanted to risk losing the benefits of the economic cooperation and both governments avoided any military confrontation. Economic gains and military security prevailed. Iran desperately needed its commercial activities through Turkish territory regarding the huge negative impacts of the economic sanctions and the Iran-Iraq War. Similarly, Turkey also needed the economic activities with Iran for its economic revival. As a result, Turkey practiced “positive neutrality” during the Iran-Iraq War, challenged the economic sanctions imposed against Iran by the United States and emerged as a winner of the war period.<sup>42</sup>

When the unilateral sanctions were imposed on Iran by the United States in 1996, many countries opposed to join, such as France, Italy, Denmark and Greece, as well as Turkey. The U.S. Government sought support of Western European countries for the sanctions on Iran through meetings, and did not “push hard” to force them to participate the U.S. sanctions. Similarly, the U.S. Iran-Libya Sanctions (ILSA) in 1996 were challenged by most European countries such as France, Germany, Italy and Greece in

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<sup>40</sup> Gharbzadegi introduced “westoxicated” as a new word the political literature in 1960s referring the social migration from villages to the cities. See, Bülent Aras, “Turkish-Israeli-Iranian Relations in the Nineties: Impact on the Middle East,” *Middle East Policy*, June 2000, Vol.7, No.3, pp.153-161. Also, Elaine Sciolino, “Understanding Why ‘They’ Hate Us,” *The New York Times* <<http://www.truthwaylife.com/reality/islam/whytheyhate23.html>> Accessed 2 June 2004.

<sup>41</sup> Henri J.Barkey, “Iran and Turkey: Confrontation Across and Ideological Divide,” *Regional Power Rivalries in the New Eurasia*, (New York: M.E.Sharpe, 1995) Ed. Alvin Z.Rubinstein and Oles M.Smolansky, p.153.

<sup>42</sup> John Calabrese, “Turkey and Iran: Limits of a Stable Relationship,” *British Journal of Middle Eastern Studies*, 1998, Vol.25, No.1, p.78.

Europe. The divergence in policies against Iran displayed a parallelism with that of the policies in 1980s. The different approach of the European countries toward Iran is also likely to continue in the future. Therefore, this point also has to be taken into consideration by Turkish and American policymakers for future strategies.<sup>43</sup>

Towards the end of the Iran-Iraq War, the trade between Turkey and Iran decreased for two reasons. First, the widespread perception, which suggested that Turkish businessmen were re-exporting third-party products from Germany, and overcharging the Iranian customs, led to the 1985 cancellation of the barter agreements, which were signed in 1981 and 1982.<sup>44</sup> The President of the Iranian Chamber of Industry, Seyyed Hamouchi, accused “Turkish businessmen of making excessive profits in their trade with Iran” and said, “we shall not tolerate this type of understanding of trade after the war”.<sup>45</sup> Second, 1986 brought a dramatic decline in the oil prices on the world markets, reduced Iran’s oil revenues from \$17 billion to \$7.5 billion and raised Iranian foreign exchange deficit.<sup>46</sup>

## **6. The End of the Cold War and New Regional Dynamics:**

The disintegration of the Soviet Union heralded the end of the Cold War and the emergence of the “Newly Independent States” (NIS) in Central Asia resurrected the competitive character of the Turco-Iranian relations. “The independence of the predominantly Turkic, Muslim-Populated states in Central Asia and the Caucasus extended the boundaries of the Middle East”, as John Calabrese stated. Turkey’s location as a bridge to Europe and Iran’s direct access to the Persian Gulf offered new opportunities to all; the Central Asian republics, Turkey, and Iran.<sup>47</sup>

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<sup>43</sup> See, The British Broadcasting Corporation, “Restrained Response’ from West Europeans to U.S. Pressure,” 17 January 1980. Also, “Iran: In Brief; The USA and Turkey’s Special Relations with Iran,” 21 April 1980.

<sup>44</sup> Henri J.Barkey, “Iran and Turkey: Confrontation Across and Ideological Divide,” *Regional Power Rivalries in the New Eurasia*, (New York: M.E.Sharpe, 1995) Ed. Alvin Z.Rubinstein and Oles M.Smolansky, p.153.

<sup>45</sup> The British Broadcasting Corporation, “Iranian Criticism of Turkey’s Trading Methods,” 24 February 1987.

<sup>46</sup> Ünal Gündoğan, “Islamist Iran and Turkey, 1979-1989: State Pragmatism and Ideological Influences,” *MERIA-Middle East Review of International Affairs*, March 2003, Vol.7, No.1. <http://meria.idc.ac.il/journal/2003/issue1/jv7n1a1.html>. Accessed 5 May 2004.

<sup>47</sup> John Calabrese, “Turkey and Iran: Limits of a Stable Relationship,” *British Journal of Middle Eastern Studies*, 1998, Vol.25, No.1, p.80.

The emergence of the Caspian and Central Asian Republics was very important for Turkey and Iran, since they possessed potentially the largest supplies of energy resources. Turkey's growing energy demand for natural gas played a significant role in it seeking better ties with the newly emerged republics. Turkey saw the Caspian and Central Asian energy sources critical to the regional energy politics. Turkey could become an energy corridor between Europe and Caspian resources. For Central Asia, Iran had a comparative advantage in access.<sup>48</sup>

Turkey's dependency on Iran for access Central Asia galvanized the competition between Iran and Turkey, which emerged from the essence of Turkey's "secularism" supported by the West and Iran's "fundamentalism". Turkey initially was considered to have a better chance of acceptance by the Central Asian Republics. Almost all of them were Turkic-speaking. Turkey had a more dynamic economy, and had better Western political and economic support. However, Iran had a comparative advantage by offering one of two alternative routes for access to Central Asia. The other route was through Russia. Another alternative was not even in consideration through war-torn Afghanistan. Thus, Iran proved to be advantageous vis-à-vis Turkey regarding the Central Asian politics. Transportation from Central Asia to Turkey would remain; however, "Iran would be the main link" as Ali Akbar Velayati, the Iranian Foreign Minister stated.<sup>49</sup>

Despite rivalry, the prospects in favor of cooperation between Turkey and Iran were inevitable. While Turkey and Iran competed for markets and new economic opportunities in Central Asia and Caucasus, both countries tried to build regional alliances in which the other would be absent. On the one hand, Turkey pushed forward for the Black Sea Economic Cooperation Zone including Russia, Azerbaijan, Armenia and Georgia. On the other, Iran joined the littoral states of the Caspian Sea, which does not include Turkey. Even though Turkey and Iran competed with each other, a compromise was a must regarding each other's economic interest. Iran and Turkey adopted a more "cooperative" stance in the competition regarding the pipeline prospects

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<sup>48</sup> Sabri Sayari, "Turkish Foreign Policy In The Post-Cold War Era: The Challenges Of Multi-Regionalism," *Journal of International Affairs*, Fall 2000, Vol.54, No.1, pp.-173-174.

<sup>49</sup> Henri J.Barkey, "Iran and Turkey: Confrontation Across and Ideological Divide," *Regional Power Rivalries in the New Eurasia*, (New York: M.E.Sharpe, 1995) Ed. Alvin Z.Rubinstein and Oles M.Smolansky, pp.161-162.

from Central Asia to Turkey that could transfer the natural gas resources of Iran and Central Asia to Europe. Both countries became more dependent on each other, since both countries would benefit from pipeline projects equally. While Iran would be able to sell and transfer Turkmen natural gas to Europe and receive revenues, Turkey would receive transit fees and contribute to its energy security. The pipelines could offer to each other a more advantageous position in Central Asia's "pipeline politics" regarding the other players, such as Russia and the United States.<sup>50</sup>

In general, the end of the Cold War and the emergence of the NIS triggered major regional crisscrossing interest groups. First, Russia and Turkey, as well as the United States, had a common interest in limiting Iran's ideological and economic influences. All of them also tried to limit Iran's role in pipeline projects, since Iran offered an alternative to the Russian pipelines and Baku-Tbilisi-Ceyhan pipeline, which was supported by the United States and Turkey. Second, Iran and Russia were concerned because of the cultural ties of Turkey with the Central Asian Turkic Republics, and both tried to limit Turkey's influence in the region. Increased cooperation between Turkey and Central Asian states could also by-pass Russian and Iranian territory regarding the pipeline projects from Central Asia and Caucasus to West. Finally, Iran and Turkey were concerned with the Russian moves designed to limit Turkey and Iran's influences. Russia had an enduring legacy in Turkic republics after ruling many years. Besides, Russian oil and gas pipelines were the only present structure for the Central Asian exports. Russia's pipeline structure also could weaken the role of Turkey and Iran. Thus, three different interests that overlapped with each other complicated the politics in the region.<sup>51</sup>

Another reason that complicated the regional politics was the crisis between Armenia and Azerbaijan about the Nagorno-Karabakh region. Two significant factors prepared the conditions for two de facto alliances between the U.S.-Turkey-Azerbaijan and Russia-Iran and Armenia. First, the "nationalist" statements of Azeri officials related to "greater Azerbaijan" regarding the 20 million Azeri populations in the Iranian territory

<sup>50</sup> Henri J.Barkey, "Iran and Turkey: Confrontation Across and Ideological Divide," *Regional Power Rivalries in the New Eurasia*, (New York: M.E.Sharpe, 1995) Ed. Alvin Z.Rubinstein and Oles M.Smolansky, p.163.

<sup>51</sup> Henri J.Barkey, "Iran and Turkey: Confrontation Across and Ideological Divide," *Regional Power Rivalries in the New Eurasia*, (New York: M.E.Sharpe, 1995) Ed. Alvin Z.Rubinstein and Oles M.Smolansky, p.165.

raised the national security concerns of Iran, which pushed Iran closer to Armenia. Second, the Haydar Aliyev Government sided with the United States and accepted the U.S. proposal to exclude Iran from the Caspian Oil Project. According to the project, Azerbaijan would transfer its oil through pipelines to Georgia and then to a Turkish Mediterranean port, Yumurtalık. The prospects even included a “trans-Caspian” natural gas pipeline that would by-pass Iran and Russia using the sub-sea pipeline in the Caspian Sea. Thus, Iran and Russia sided with Armenia to respond to the American-Turkish and Azeri cooperation throughout 1990s.<sup>52</sup>

### **7. Continuity or Change: The Historical Dynamics That Prevailed**

Today, Turkey and Iran still have some characteristics that survived from the pre-revolutionary period to post-Revolutionary Iran, which should be taken into consideration in the future. The security perceptions of two countries stayed parallel in many instances, which pushed each other closer to cooperate. When looking at today’s relations, this specific characteristic is still intact in bilateral relations between Turkey and Iran. On the one hand, “Turkey’s external security concern”, the tensions between Greece and Turkey, eased and both are practicing good relations. Therefore, Turkey’s external threat perceptions regarding Greece are not the same as before. However, Turkey’s perceived threat to its territorial integrity can be argued in context of ongoing process in Iraq. Turkey has had a security concern regarding the Kurdish population in northern Iraq before and after the OIF.

On the other hand, Iran is having political and economic difficulties because of the U.S. economic sanctions and political pressure due to Iranian WMD and terrorism support allegations, which raised Iran’s external threat perceptions. Moreover, the Kurdish population in northern Iraq contributes to Iran’s security perceptions regarding their own territorial unity. Therefore, Turkey and Iran have enough overlapping interest regarding Iraq, the Kurdish population in particular, which pushes them closer to each other.

The competitive character of the bilateral relations between Turkey and Iran was another characteristic that prevailed in the post-Cold War environment. It gained an

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<sup>52</sup> Bülent Aras, “Turkish Foreign Policy Towards Iran: Ideology and Foreign Policy In Flux,” *Journal of Third World Studies*, Spring 2001, Vol.18, no.1, pp.113-114.

impetus especially after the disintegration of the Soviet Union. The emergence of the new, mostly Turkic-speaking republics in Central Asia and Caucasus triggered a new era of competition between Turkey and Iran for influence and economic gains in those regions. Therefore, the long tradition of competition for influence in the history of two countries is likely to continue in future relations.

Mutual recognition of each other's interest is the third feature that continued in the relations between Turkey and Iran. Today, Turkey and Iran still keep their relations "decent" and avoid any radical confrontation with each other as an important attribute for the stability between two countries. Besides, Turkey's linkage to Europe and the Mediterranean, and Iran's linkage from Turkey to Turkmenistan as well as other Central Asian Republics beyond, persuaded both to recognize the fact that they are bound to cooperate with each other in order to maximize their own benefits. For that reason, the peaceful character in Turkish-Iranian relations is likely to continue in the future and must be taken into account for constructive prospects in the region, such as conflict resolution and security building initiatives. If Turkey and Iran agree on an initiative, the other countries in the Caspian and Central Asia are likely to follow, since both are the outlet routes for the regional countries to the world markets.

Finally, Turkey and Iran are strongly committed to the status quo in the region as both of them proved to be firm in their positions in the 20<sup>th</sup> century. Neither of them attempted to destabilize any other country in the region including each other, a must for the region's stability in the future. Regarding the two countries' geographic positions, it is very crucial to have Turkey and Iran's support to initiate economic and political developments in the Middle East, the Caucasus and Central Asia.

Today, Turkey and Iran are sitting in the middle of the most crucial geographic areas, the Middle East, the Caucasus and Central Asia. The Caucasus and Central Asia have the potential to bring stability and new energy to the world markets. The moderate view towards Islam in all of the Central Asian republics promises more than any other region to prove Islam's compatibility with democracy, which would have tremendous implications for the rest of the Muslim World, a strategic goal of the United States. Moreover, the United States needs those areas for an effective "Global War on

Terrorism” in regards to Afghanistan and Iraq. The Global War on Terror (GWOT) as the major U.S. security concern in Iraq and Afghanistan; the increasing linkages between the EU, Central Asia, the Caucasus, and the Middle East as well as the U.S. and Russian presence as struggling major forces in Central Asia, all make Turkey and Iran indispensable to achieve the objectives.

Turkey and Iran are integral to achieving these goals, since they are the route, the linkage and the buffer for many possible strategies in the region. They are the route, since both offer an outlet for the Caspian and Central Asia to the Mediterranean and the Persian Gulf. They are the linkage, since the U.S. must go through one of those countries, if it wants to access the Central Asia and the Caspian. They are buffer, because Turkey and Iran keep the Russia outside of the Middle East. Therefore, the cooperation between Turkey and Iran increasing the interdependence is in the interest of the United States and the Western world to soften Iran’s radical approach, promote openness in Iran, and promote Turkey’s development as a model of Muslim and democratic country. The Turkish-Iranian natural gas cooperation creates a start point to raise the prospects for interdependence and cooperation in the region. Even though two countries do not follow the same path in their ideologies, their interdependence has the potential to increase the cooperation among the regional countries for regional stability and economic progress in order to protect their national interest. In this context, the Turkish-Iranian natural gas pipeline is the vital element to promote good relations between Iran and the West.

## **B. THE BACKGROUND OF TURKEY’S NATURAL GAS AGREEMENT WITH IRAN**

### **1. Turkey’s Preference for the Iranian Natural Gas**

Given the past relations and characteristics in bilateral relations between Turkey and Iran, the incentives for cooperation about natural gas should be made clear to understand the changing character of the relations between Turkey and Iran.

Turkey has various policy priorities regarding energy issues, and they are: Satisfying the domestic energy demand, diversification of the supplies and decreasing the dependency on a single source, prospects for being an energy hub, and finding solutions for environmental concerns.

The Turkey-Iran natural gas agreement is a result of various reasons that are included in the Turkish energy policy priorities previously mentioned. Therefore first, the Turkish energy policy in the beginning of the new millennium will be explained following a brief economic history. Then, the reasons for increased gas usage on a global scale will be covered as well as the Turkey's preference for Iranian natural gas. Finally, Turkey's suppliers and other related issues to the suppliers, which lead Turkey and Iran to the natural gas agreement, will be examined.

## **2. General Look at the Turkish Economy:**

A general look at the Turkish economy is crucial in order to identify the economic preconditions for Turkey's motivation towards the natural gas cooperation with Iran. Turkey's de facto goal has been the achievement of the full membership to the European Union. Therefore, economic progress became a major subgoal. Natural gas cooperation with Iran not only offers a new energy source, but also creates new commercial opportunities such as increased trade activities with Iran to achieve this subgoal.

Although some 42% of the economically active population is concentrated in the agriculture sector, Turkey's industry and tourism are the fastest growing sectors of the Turkish economy. In human terms, Turkey is one of the 20 most populous countries in the world and has the fastest growth rate of all OECD (Organization for Economic Cooperation and Development) countries.<sup>53</sup> With a current population of 67 million, it is estimated that Turkey will reach a population of 80 million by 2015.

Turkey suffered from the economic crisis in 1990s. There are three main causes for Turkey's economic struggle, i.e. political instability, earthquakes and untaxed underground economy. First, because Turkey's internal market has been very sensitive to political changes due to a large government role in the finances of local markets, the political instability became a major cause for decline in the economy throughout 1990s.

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<sup>53</sup> United Nations Economic and Social Commission for Asia and the Pacific, "National Environmental Action Plan in Turkey," p.2. <http://www.unescap.org/stat/envstat/stwes-13.pdf>. Accessed 2 December 2003.

<sup>54</sup> Tüsiad-Türkiye Sanayi ve İşadamları Derneği (Turkish Industry and Businessmen Association), "Turkey at a Glance," p.5. <http://www.Tüsiad.org/english/rapor/te/1.pdf>. Accessed 2 December 2003.

Second, an earthquake set another stage for the decline of Turkey's economy. The devastating earthquake of 1999 severely disrupted the economic activities in Istanbul region, the heartland of industry.<sup>55</sup> Despite the efforts of the Turkish government's extensive economic programs to overcome chronic high inflation, the earthquakes of August 1999 and financial crisis in 2001 brought nearly a 10% reduction in the economy.<sup>56</sup>

Third, some other factors also contributed to the economic failure. A large untaxed underground economy, sharp income inequalities, low levels of private investment, large inefficient state sector and highly bureaucratized legal and administrative procedures were all the other issues.<sup>57</sup> Thus, Turkey's economic struggle created the preconditions for Turkey's drive towards the Iranian natural gas as a means to economic achievement.

### **3. Turkish Energy Policy:**

Turkish energy policy has multiple objectives. The geographic location of Turkey makes such a multidimensional policy inevitable. On the one hand, Turkey's proximity to Russia, the Caspian Basin, Central Asia, and the Middle East facilitates Turkey's ability to reach the energy rich areas. On the other hand, 'energy hungry' Europe is at the other edge on the western borders of Turkey and raises the prospects for becoming an energy hub in the region. Therefore, Turkish energy policy can be defined as a result of the gap between internal demand and supply capacity, the need of diversified and reliable cost-effective sources, the pipeline prospects that are focused on the North, East and the Southeast of Turkey, and finally the environmental concerns.<sup>58</sup>

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<sup>55</sup> The World Bank, "Turkey's Long-Term Development Plans," 7 November 2003. <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20136713~menuPK:34457~pagePK:34370~piPK:42768~theSitePK:4607,00.html#>. Accessed 2 December 2003.

<sup>56</sup> The World Bank Group, "Turkey Country Brief 2003." <http://lnweb18.worldbank.org/eca/eca.nsf/ExtECADocbyUnid/88D3259E8F0148BD85256D5D00687FEE?Opendocument>. Accessed 2 December 2003.

<sup>57</sup> Energy Information Administration, "Country Analysis Brief: Turkey," May 2003. <http://www.eia.doe.gov/emeu/cabs/turkey.html>. Accessed 18 July 2003.

<sup>58</sup> Ministry of Foreign Affairs, "Turkey's Energy Policy," Last updated 20 December 2003. <http://www.mfa.gov.tr/grupa/an/policy.htm>. Accessed 28 January 2004. See also, Brent Sasley, "Turkey's Energy Politics in the Post-Cold War Era," *Middle East Review of International Affairs*, December 1998, Vol.2, No.4, p.35.

#### 4. Iranian Natural Gas Agreement in Turkish Energy Policy:

The Iranian natural gas agreement fits well in Turkish energy policy priorities. As the first priority, closing the gap between energy demand and supply ultimately dictates a policy in favor of Iranian gas purchase. As the electricity demand started to soar due to improvement of Turkey's living standard, natural gas became a major concern in future prospects, which will be explained later.<sup>59</sup>

The second priority is the energy security of Turkey. The diversification of the supplies is possible since Turkey has either borders or an advantageous geographic proximity to the energy rich areas in Russia, the Caspian Basin, the Central Asia and the Middle East. In natural gas, Russia is the largest producer among Turkey's natural gas suppliers (61% in 2003).<sup>60</sup> However, the disputes over the feasibility of the Blue Stream pipeline under Black Sea from Russia to Turkey and the excessive dependency on Russian natural gas created a controversy in favor of diversification. Iranian natural gas is the closest diversifying alternative to mitigate regarding these concerns.<sup>61</sup>

Third aspiration of the Turkish energy policy is "to become an energy bridge from the East to West, and the North to South", as Haldun Danişman, Deputy Under-Secretary at the Ministry of Energy and Natural Resources, stated at the Power Projects 2000 Conference in Istanbul in June 1998.<sup>62</sup> The oil pipeline projects from the Caspian, Central Asian and the Middle Eastern energy resources to the western markets created the "new great game", replacing the railroads with pipelines to assert political influence. Turkey stands at the cross point of such pipeline projects. Choosing the Iranian option in natural gas and having a pipeline between two countries is another step towards becoming an energy bridge between Europe and the Middle East as Turkey envisions

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<sup>59</sup> See, John Roberts, "Turkey Goes for Gas," *Energy Economist*, (London: 1 July 1998), Issue 201, pp.15-19. Also, Ministry of Foreign Affairs, "Turkey's Energy Policy," Last updated 20 December 2003. <http://www.mfa.gov.tr/grupa/an/default.htm>. Accessed 28 January 2004.

<sup>60</sup> The number is based on the natural gas contracts that are done until now. To see the agreements, Botaş, Doğal Gaz Taşımacılığı, Tesisleri ve Ticareti (Botaş: Turkish Oil Pipeline Company). [http://www.Botas.gov.tr/dogalgaz/dg\\_alim\\_ant.html](http://www.Botas.gov.tr/dogalgaz/dg_alim_ant.html). Accessed 30 November 2003.

<sup>61</sup> Ferruh Demirmen, "Blue Stream: A Project that Turkey Could Do Without," *Turkish Daily News*, 23 April 2002. [http://www.turkishdailynews.com/old\\_editions/04\\_23\\_01/feature.htm#fl](http://www.turkishdailynews.com/old_editions/04_23_01/feature.htm#fl). Accessed 20 November 2003.

<sup>62</sup> John Roberts, "Turkey Goes for Gas," *Energy Economist*, (London: 1 July 1998), Issue 201, pp.15-19.

itself. Iranian gas is not only likely to satisfy Turkey's internal gas demand, but also reimburse itself through the transit fees it could charge others.<sup>63</sup>

As the last reason, environmental concerns also emerge as one of the strong motivations to encourage Turkey to seek natural gas usage, because gas is less polluting than coal, lignite or oil. The air quality became a big concern especially in urban areas due to extensive usage of wood in households. In addition, coal and oil operated electricity generation plants also contributed to the atmospheric pollution as the electricity consumption increased. Therefore, natural gas import is recommended, because it can help decrease the pollution level, which leads the policymakers to consider the Iranian natural gas.<sup>64</sup>

### **5. Why is Gas the Favorite? Why Does Turkey Prefer It?**

When looked in general, there are some certain factors that encourage natural gas usage. The trend around the world is in favor of gas for power production vis-à-vis other materials. According to the Energy Information Administration's 2003 International Energy Outlook, natural gas is expected to be the fastest growing component of the world primary energy consumption. In 2025, the natural gas consumption is expected to be nearly double (176 Tcf) of what it was in 2000 (See Figure 1).

Natural gas usage increased especially in the last decade. Turkey's purchase of natural gas began in 1987 with imports from the former USSR. The initial volume increased due to fast economic growth, industrialization, population and rapid urbanization. The general power generation using gas in Turkey in 1990s increased 300% as a result of growing residential and industrial consumption with an increase of 460%.<sup>65</sup>

Turkey had three reasons to prefer natural gas. First, electricity demand is increasing as the standard of living improves. Second, environmental gas has always been readily available from neighbors, such as Russia and Iran. Third, Turkey has energy hub

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<sup>63</sup> F.Stephen Larrabee and Ian O.Lesser, *Turkish Foreign Policy in an Age of Uncertainty*, (RAND, National Security Research Division, 2003), p.108.

<sup>64</sup> Energy Information Administration, "Turkey: Environmental Issues," July 2002. <http://www.eia.doe.gov/emeu/cabs/turkenv.html>. Accessed 20 November 2003.

<sup>65</sup> Nilgün Ş.Açıkalin, "Transit Development in Turkey: Current Situation and Prospective," *International Energy Agency*, p.2. <http://www.iea.org/nmcl/seegas/nmcacy.pdf>. Accessed 1 December 2003.

plans, because it has both neighbors with vast natural gas resources and outlets for the world markets. Therefore, natural gas proves itself to be a viable option for Turkey.<sup>66</sup>

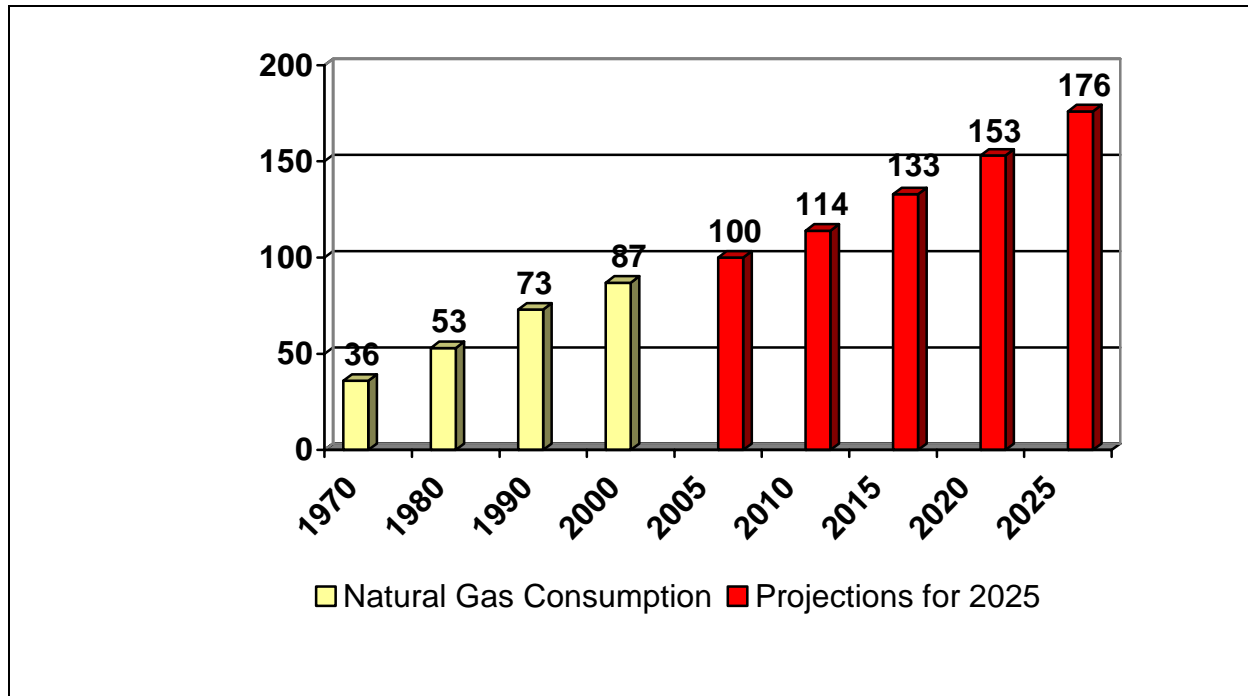


Figure 1. Consumption and Projections Around the World <sup>67</sup> (Trillion Cubic Feet)

The first reason for the trend is electricity. Electricity is a major component of daily and industrial activities, and natural gas is directly related to the electricity generation sector. The abundance of natural gas reserves, technological flexibility and feasibility of gas using power plants, and the ambiguity in nuclear power prospects, such as feasibility and safety concerns, are major reasons to prefer gas in power generation. In 2000, 7% (14 GW) of global electricity generating capacity came from gas, while nuclear capacity achieved only 2.15% (4.3 GW) (See Figure 2).<sup>68</sup>

<sup>66</sup> John Roberts, "Turkey Goes for Gas," *Energy Economist*, (London: 1 July 1998), Issue 201, pp.15-19.

<sup>67</sup> Energy Information Administration, "International Energy Outlook 2003: Natural Gas," (Report #: DOE/EIA-0484(2003), 1 May 2003. [http://www.eia.doe.gov/oiaf/ieo/nat\\_gas.html](http://www.eia.doe.gov/oiaf/ieo/nat_gas.html). Accessed 26 November 2003.

<sup>68</sup> See, Kyung-Hwan Toh, "The Impact of Convergence of the Gas and Electricity Industries: Trends and Policy Implications, International Energy Agency," p.3. <http://library.iea.org/dbtw-wpd/textbase/papers/2003/toh.pdf>. Accessed 1 December 2003. Also, Nilgün Ş. Açıkalın, "Transit Development in Turkey: Current Situation and Prospective," *International Energy Agency*, p.2. <http://www.iea.org/nmcl/seegas/nmcacy.pdf>. Accessed 1 December 2003.

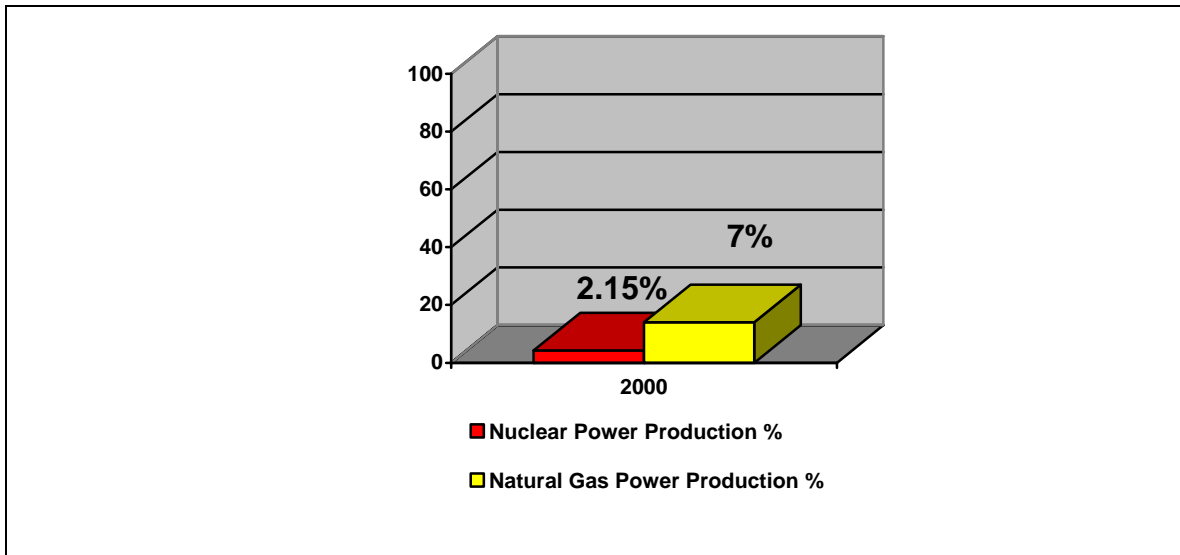


Figure 2. Share of Natural Gas in Power Production

Environmental concerns are the second reason to prefer gas. The high efficiency of gas and the concerns about weather pollution favor increased gas usage. The World Energy Outlook 2002 estimated the annual gas usage in power generation would grow by 4.5%, which is a lot faster than coal (2.2%), oil (0.2%), or nuclear (0.1%) (Figure 3).<sup>69</sup>

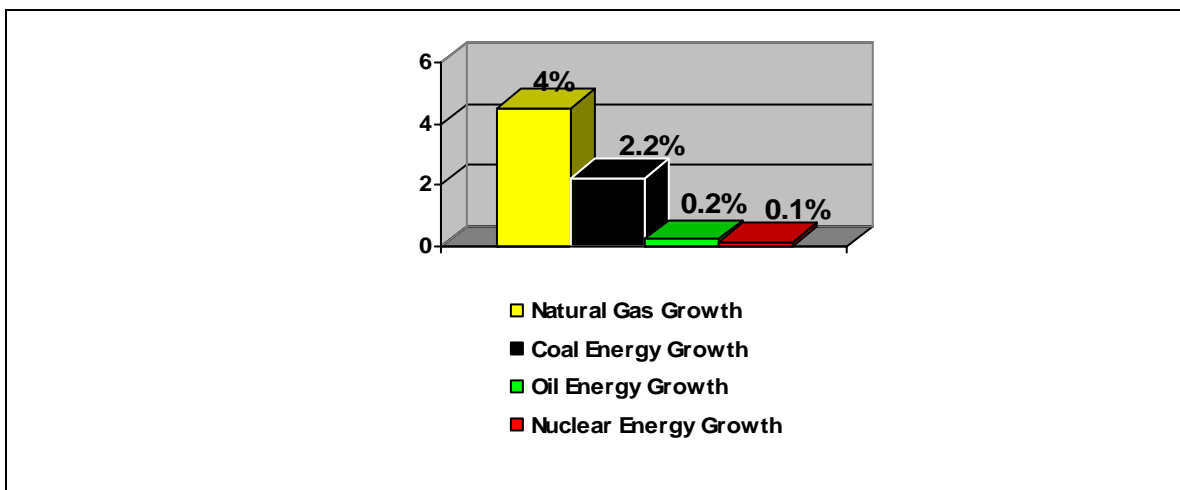


Figure 3. Energy Usage Growth in Power Generation

As the third reason, Turkey's potential to become an energy hub in the region facilitates becoming a bridge that links Europe and the Middle East and Central Asia. Turkey is surrounded by the rich energy sources of the Caspian and the Middle East in the East. On the other side, Europe is largely dependent on the Russian supply and in

<sup>69</sup> Kyung-Hwan Toh, "The Impact of Convergence of the Gas and Electricity Industries: Trends and Policy Implications," *International Energy Agency*, p.5. <http://library.iea.org/dbtw-wpd/textbase/papers/2003/toh.pdf>. Accessed 1 December 2003.

pursuit of an alternative to diversify its supply as it will be mentioned in benefits of the energy hub plans of Turkey in Chapter III.

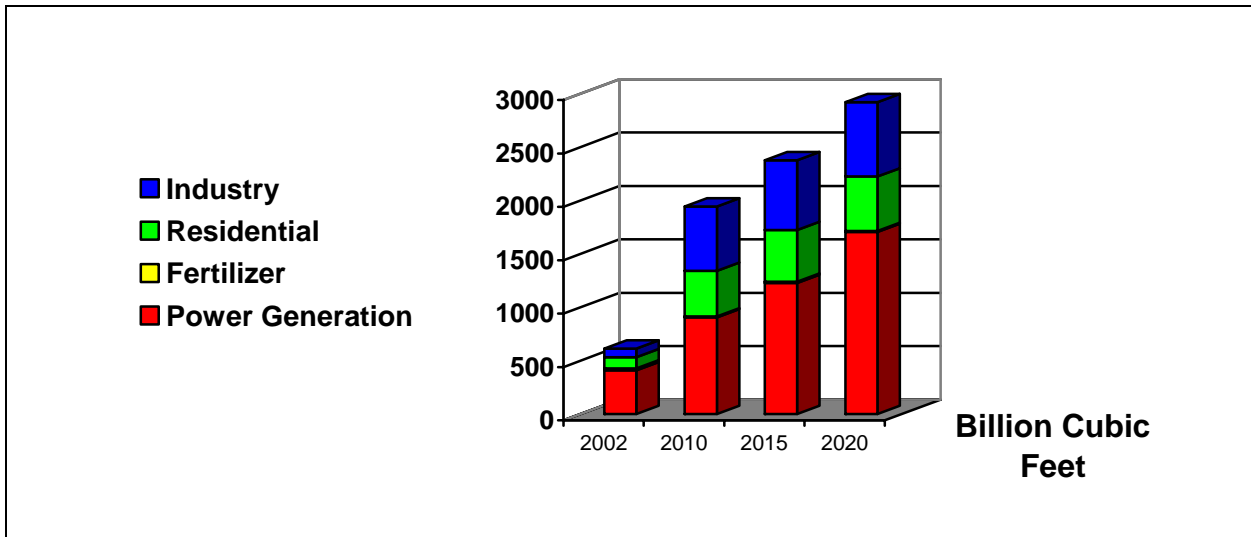


Figure 4. Natural Gas Consumption Projections in Turkey (Billion Cubic Feet)<sup>70</sup>

#### 6. Turkey's Gas Suppliers:

Turkey has various suppliers. Turkey imports natural gas from Russia and Iran, and LNG (Liquefied Natural Gas) from Algeria and Nigeria. Currently, Russia provides the largest portion among Turkey's natural gas supplies. Algeria and Nigeria are supplying Turkey with LNG because a pipeline is not possible between Turkey and those countries. However, it requires more time and effort to reprocess the LNG back to normal. Therefore, natural gas that is transported through pipelines is available only from Russia and Iran.

According to the contracts signed so far, Russian Federation will continue to hold its dominant position in Turkey's natural gas imports. However, it might be possible to decrease the dependency on Russian gas by using Iran, Turkmenistan and Azerbaijan supplies, two of which are planned to start by 2005 (See Figure 6).<sup>71</sup>

<sup>70</sup> See Figure 04 as projections for natural gas usage in sectors. Power generation is likely to be the largest portion of gas usage. Ali Arif Aktürk, "The Outlook for the Turkish Market," Conference on Natural Gas Transit and Storage in Southeast Europe, (Istanbul: 31 May-1 June, 2002), International Energy Agency, p.6. <http://www.iea.org/nmcl/seegas/nmcact.pdf>. Accessed 2 December 2003.

<sup>71</sup> Botaş, Doğal Gaz Taşımacılığı, Tesisleri ve Ticareti (Botaş: Turkish Oil Pipeline Company). [http://www.Botas.gov.tr/dogalgaz/dg\\_alim\\_ant.html](http://www.Botas.gov.tr/dogalgaz/dg_alim_ant.html). Accessed 30 November 2003.

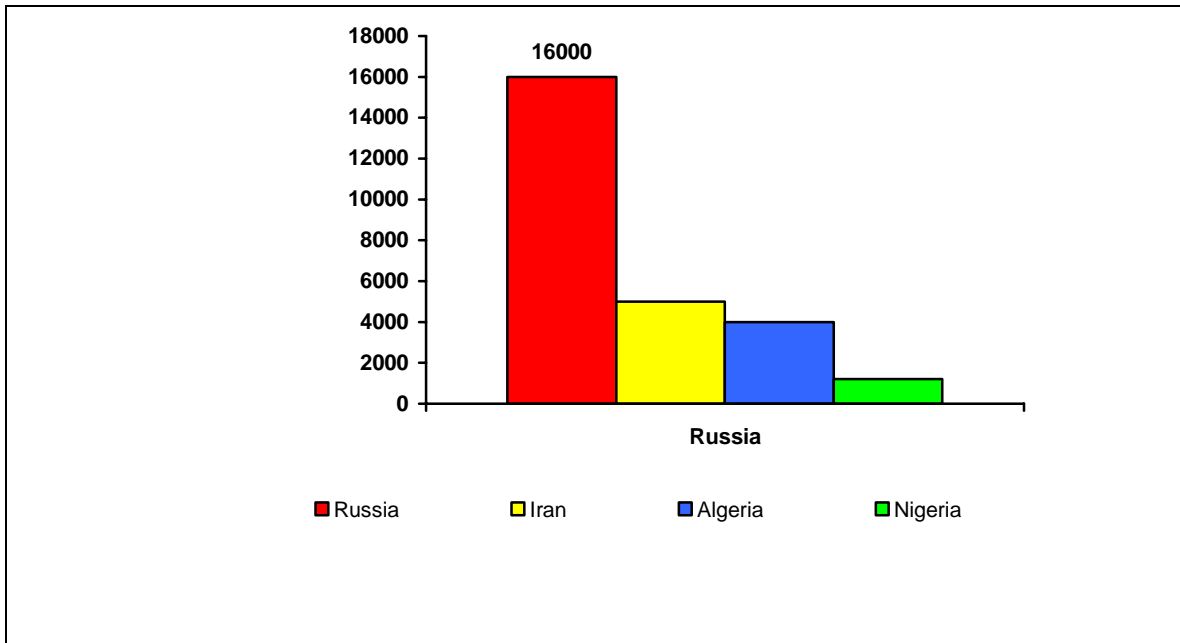


Figure 5. Turkey's 2003 Natural Gas Suppliers

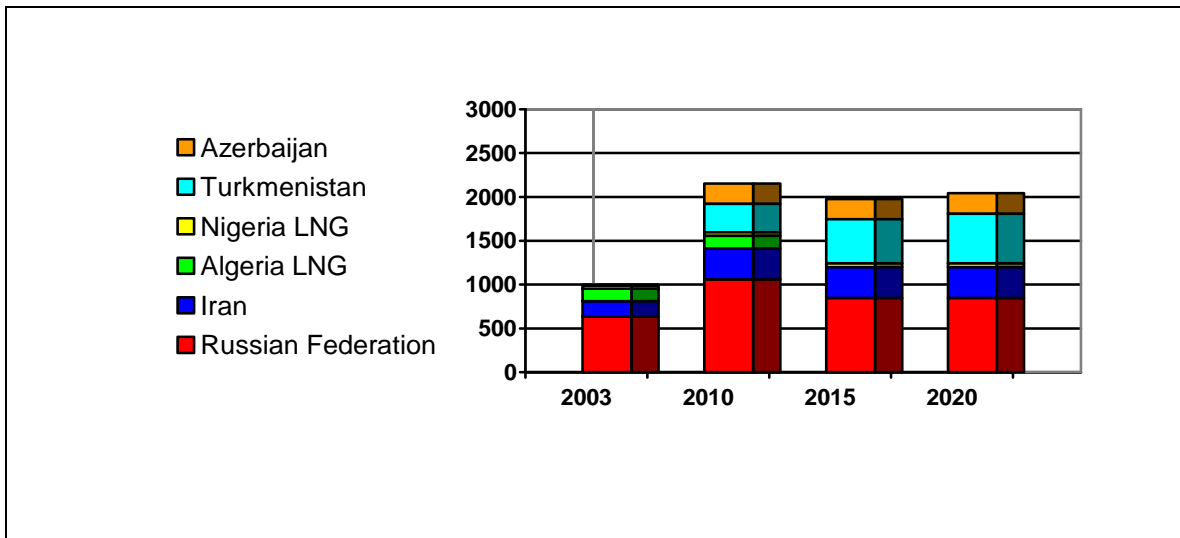


Figure 6. Turkey's Natural Gas Contracts with Countries\* (Billion Cubic Feet/Year)<sup>72</sup>  
 \* Amounts in agreements signed so far

## 7. Why Should Turkey Buy Natural Gas From Iran?

There are several reasons to explain why Turkey should buy natural gas from Iran. Russia's largest portion in Turkey's gas supplies and the potential technical difficulties of Russia's Blue Stream pipeline are one side of the equation. The other is

<sup>72</sup> Botaş, Doğal Gaz Taşımacılığı, Tesisleri ve Ticareti (Botaş: Turkish Oil Pipeline Company). [http://www.Botas.gov.tr/dogalgaz/dg\\_arztaleb\\_sen.html](http://www.Botas.gov.tr/dogalgaz/dg_arztaleb_sen.html). Accessed 30 November 2003.

Turkey's projected gas demands in the future and Iran's potential in its proven gas reserves to satisfy the demands. Both reasons make Iranian gas an attractive option.

As one side of the concern, the large portion of Russian gas among Turkey's suppliers brings the question of a possible risk of energy crisis, since Turkey is largely dependent on the Russian supply. The dependency on the Blue Stream pipeline is the first reason to criticize the Russian supply, which directs Turkey to Iranian natural gas as a need for diversification of supplies. Russia's current share in Turkey's natural gas supply is 61% and half of it is being provided through Blue Stream pipeline under Black Sea. If Turkmen and Azeri gas projects start as planned, Russia's share will decrease to 50% in the beginning of 2006. Russia's share does not change in 2010, and there is 5% share decrease in 2015 due to increase of Turkmen and Azeri supplies (Figure 7).

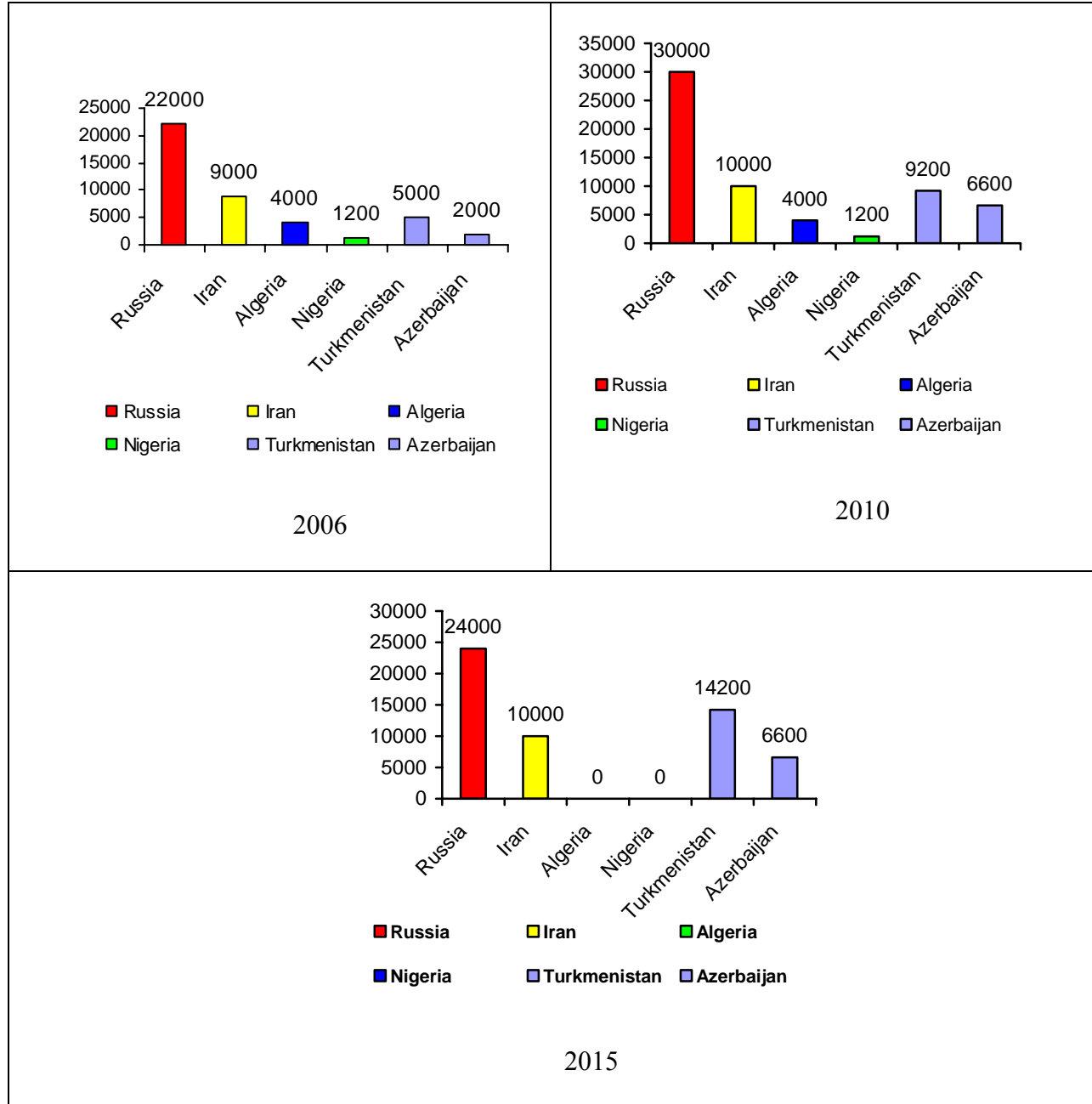


Figure 7. Turkey's Natural Gas Suppliers in 2006, 2010 and 2015 (No significant change in 2020)<sup>73</sup>

<sup>73</sup> Botaş, Doğal Gaz Taşımacılığı, Tesisleri ve Ticareti (Botaş: Turkish Oil Pipeline Company). [http://www.Botas.gov.tr/dogalgaz/dg\\_arztaleb\\_sen.html](http://www.Botas.gov.tr/dogalgaz/dg_arztaleb_sen.html). Accessed 30 November 2003.

The Blue Stream pipeline in particular is the focus of the critiques, because it largely contributes to the dependency transporting the half of Russian supply to Turkey. The Blue Stream pipeline is the deepest and longest sub-sea pipeline in the world. When considering that the bottom of the Black Sea is covered with slimy, sulfur-rich ooze corrosive to ordinary pipelines, then the feasibility and maintainability of the Blue Stream becomes an issue, especially because Blue Stream provides half of the Russian natural gas to Turkey. If mud volcanoes, methane seepages, slope failures and earthquakes are included among other factors, it is obvious that Turkey could face energy cutoffs for a long period of time as a result of natural incidents. Thus, possible energy cutoffs turn into a potential threat to Turkey's energy security as a result of Blue Stream's high potential risks.<sup>74</sup>

The other side of the concern as to why Turkey should import gas from Iran is that Turkey's projected natural gas demand requires more gas imports. When comparing the future demand projections by BOTAS (the Turkish Pipeline Company) to the contracts already signed, Turkey is likely to have a surplus until 2010. However, there will be a significant increase in natural gas demands after 2010. Therefore, Turkey either has to sign new contracts, or increase the amounts in current contracts, both of which lead Turkey to the Iranian natural gas as the first optimum choice (See Figure 8).

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<sup>74</sup> Ferruh Demirmen, "Blue Stream: A Project that Turkey Could Do Without," *Turkish Daily News*, 23 April 2002. [http://www.turkishdailynews.com/old\\_editions/04\\_23\\_01/feature.htm#f1](http://www.turkishdailynews.com/old_editions/04_23_01/feature.htm#f1). Accessed 20 November 2003.

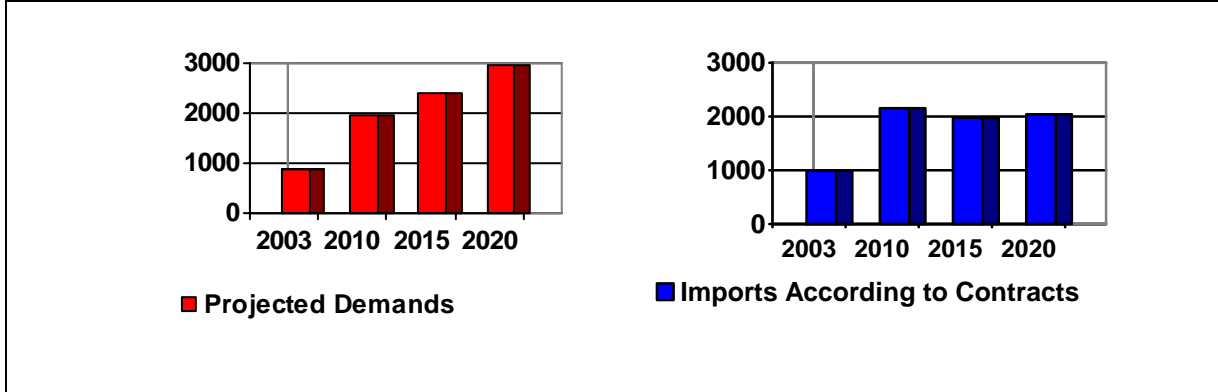


Figure 8. Turkey's Natural Gas Contracts with Countries (Billion Cubic Feet/Year)<sup>75</sup> and Projected Natural Gas Demands<sup>76</sup>

If Turkey needs more natural gas, Iran offers a reasonable option due to several reasons. First, Iran has vast natural gas reserves and possesses half as much as Russia's and four times that of Saudi Arabia's estimated natural gas reserves according to Oil&Gas Journal's estimates. Moreover, Iran has a ready-to-use pipeline infrastructure that facilitates the cooperation. Therefore, Iran has the potential to react to demands very quickly.<sup>77</sup>

Second, Iran is a neighbor of Turkey. Therefore, there will be no transit fees on the final price of the gas in Turkey due to the absence of a transit country. As another advantage, Iran is a direct provider to Turkey. Therefore, there is no obligation for Turkey and Iran to deal with a third party regarding the pipeline security. Other suppliers in the Middle East, such as Saudi Arabia, Kuwait and Qatar, would have to build pipelines through either Iraq or Syria. However regarding Turkey's energy hub plans, a single country may be able to use the pipeline as a card against Turkey and the supplier, or Turkey and the supplier could be affected by the instability of the transit country.

<sup>75</sup> Botaş, Doğal Gaz Taşımacılığı, Tesisleri ve Ticareti (Botaş: Turkish Oil Pipeline Company). [http://www.Botas.gov.tr/dogalgaz/dg\\_arztaleb\\_sen.html](http://www.Botas.gov.tr/dogalgaz/dg_arztaleb_sen.html). Accessed 30 November 2003.

<sup>76</sup> Botaş, Doğal Gaz Taşımacılığı, Tesisleri ve Ticareti (Botaş: Turkish Oil Pipeline Company). [http://www.Botas.gov.tr/dogalgaz/dg\\_arztaleb\\_sen.html](http://www.Botas.gov.tr/dogalgaz/dg_arztaleb_sen.html). Accessed 30 November 2003.

<sup>77</sup> Even though Iran's natural gas estimated reserved are not as much as that of Russia, Russia's available amount is lower than the reserves due to inefficiency and increased cost of gas transportation to distant areas. Energy Information Administration, "World Crude Oil and Natural Gas Reserves, Most Recent Estimates." <http://www.eia.doe.gov/emeu/international/reserves.html>. Accessed 2 December 2003.

Third, Iran is more committed to natural gas cooperation with Turkey compared to other Middle Eastern countries because of two reasons: The ILSA (Iran-Libya Sanctions Act), which leaves little room for Iran in pipeline politics, and the absence of another viable route for pipelines to Europe. All these factors make Iran more committed to the cooperation with Turkey and a feasible alternative for Turkey's future goals.

All reasons given before create the preconditions for Turkey's motivations to seek natural gas imports from Iran. Dependent largely on the Russian supplies in natural gas, Turkey's energy policies as well as global tendencies direct Turkey to a very close supply. Iran's pragmatic policy incentives also facilitate close relations between Turkey and Iran as it will be explained in next chapter. Thus, the Turkish-Iranian natural gas agreement is likely to continue its popularity in both countries agenda.

### **III. THE BENEFITS OF TURKEY-IRAN NATURAL GAS COOPERATION FOR TURKEY: INTERDEPENDENCE FOR FURTHER DEVELOPMENT**

#### **A. INTRODUCTION**

The realization of benefits from the Turkish-Iranian natural gas cooperation is increasingly vital for ensuring the success of Turkey's future goals. If Turkey can achieve some of its economic, political and security objectives through the natural gas cooperation with Iran, it may increase Turkey's chance for further progress in political and economic issues.

Even though the primary focus of this chapter covers Turkey, Iran, Russia and the United States as major players, the European Union is also reviewed as a factor for the motivation of the Turkish energy politics. Natural gas is the key to my argument, because it is the natural gas cooperation with Iran that will contribute Europe's energy security through Turkey and increase the significance of Turkey for Europe.

Turkey has various policy priorities regarding energy issues, and they are: Satisfying the domestic energy demand, diversifying supplies and decreasing dependency on a single source, becoming an energy hub, and finding solutions for environmental concerns.

The benefits of Turkey-Iranian natural gas cooperation are examined on three different levels: political/security, economic and environmental. All levels address a different aspect of Turkey's motivation for importing gas from Iran, such as increasing Turkey's security through cooperation, becoming energy hub and highlighting the significance for Europe, increasing the commercial activities with Iran, and help Iran's political openness.

The Turkey-Iran natural gas agreement is a result of various reasons that are included in the Turkish energy policy priorities previously mentioned. Therefore first, the Turkish energy policy in the beginning of the new millennium will be explained following a brief economic history. Then, I will cover the reasons for gas usage on a global scale as well as Turkey's reasons to prefer natural gas, Turkey's suppliers and

related issues to the suppliers. Finally, I will examine the benefits of Turkish-Iranian gas agreement.

## **B. TURKEY'S BENEFITS FROM THE NATURAL GAS COOPERATION WITH IRAN**

### **1. Benefits for Iran**

Turkey's natural gas cooperation with Iran has numerous economic and political advantages for the Iranian regime and the country that could persuade them to value this cooperation. Iranian route is argued to be the "most viable" route among the possible pipelines in the region, according to a cost-benefit analysis in *Oil&Gas Journal*.<sup>78</sup> Economic benefits for Iran from gas pipelines to Turkey are multidimensional. First, Iran obtains vast revenues from gas sales to Turkey that would help revive the Iranian economy. This revenue is likely to increase in the future upon the completion of the gas pipeline between Greece and Turkey, which would connect Iran to the European market.

Second, the cooperation between Turkey and Iran is not limited to energy cooperation. Turkey and Iran agreed to increase cooperation in commercial activities regarding the health, environment, telecommunication as well as transportation and custom issues. In parallel to that, both countries established border trade centers to monitor and improve the trade activities during the 17<sup>th</sup> term meeting of Turkey-Iranian Joint Economic Commission (JEC) held in Ankara in April 2003. While nearly 40 Iranian businessmen arrived in Istanbul to meet their Turkish counterparts, Iranian Vice President, Mohammad Reza Aref, said that "all sectors in two countries could make economic cooperation with joint investment" by stating "only natural gas should not be considered in improvement of relations".<sup>79</sup>

Third, Iran increased its importance to Central Asian states in pipeline politics, especially with Turkmenistan. Since Iran and Turkmenistan are border neighbors and Turkmenistan is dependent on the Russian pipelines in oil and gas exports, Iranian route offers the other viable route. Iran also offers another advantage, the existing pipeline structure in the country. For that reason, the construction of a gas pipeline from

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<sup>78</sup> M.R.Farzanegan, "Iranian Options Most Economically Viable for Exporting Caspian Oil," *Oil&Gas Journal*, 17 March 2003, Vol.101, No.11, p.22.

<sup>79</sup> Global News Wire, "Turkish-Iranian Agreement Aims to Develop Border Trade," *The Financial Times Information*, 26 April 2003.

Turkmenistan to Iran started at the end of 1996 with the presence of Turkish, Iranian and Turkmen Presidents, and was completed by the end of next year, December 1997.<sup>80</sup>

Iranian gas agreement with Turkey also provides some political benefits. First, Iran will eventually receive a support for its political stability. Because Turkey and Europe will watch Iran's stability closely in regards to their energy security, Iran is likely to enjoy this political support. As Selahattin Alpar, the Turkish Ambassador to Tehran in 2001, stated; "the gas project between the two countries, apart from its economic benefits, illustrates the strategic and political considerations that both Tehran and Ankara have made their priorities."<sup>81</sup>

Second, Iran is likely to benefit politically and economically from increased Greek-Iranian relations as a result of the natural gas pipeline to Turkey. Turkey-Iran natural gas pipeline is of great importance between Greece and Iran. Iran will be able to transfer natural gas to Greece through Turkey. To implement this project, Turkish-Iranian natural gas pipeline will be extended to Greece. During the second half of his European tour to Europe in March 2002, Iranian President Mohammad Khatami held talks with his Greek counterpart, and two countries agreed to cooperate with each other in the field of gas, customs, investments and commodities tariff. Iran is improving its relations with Greece, the most Eastern member of the European Union as a result of improved cooperation between two countries. Thus, Iran might have a greater voice in the EU regarding its relations with the EU and Greece in particular.<sup>82</sup>

Third, Iran's improved relations with Greece are not only a bilateral improvement. Through bilateral talks, Iran is increasing the interdependence between Iran, Turkey as well as Greece. The interdependence between three countries may lead to increased commercial and political interaction among them, which would benefit Iran the most, regarding the economic sanctions and political pressure of the United States.

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<sup>80</sup> See, Financial Times Business Limited, "Turkmenistan Launches Export Pipeline Project with Local Friends," (Source:East European Energy Report), 25 November 1994, p.22. Also, Xinhua News Agency, "Turkmenistan-Iran Pipeline Starts Operating," 29 December 1997.

<sup>81</sup> British Broadcasting Corporation, "Iran: Turkish Ambassador Says Tehran-Ankara Ties Expanding," *BBC Monitoring Middle East*, 22 December 2001.

<sup>82</sup> British Broadcasting Corporation, "Iran: Commentary Says Cooperation With Greece Will Benefit Turkey," (Source: Voice of the Islamic Republic of Iran, Tehran), 14 March 2002.

Therefore, Iran is obtaining political and economic advantages vis-à-vis its perceived American concern in the region by improving its proximity to the EU.<sup>83</sup>

Fourth, Iran's natural gas cooperation is a win-win investment for Iran and the EU in political sense. Through contributing to the European energy security, Iran obtains political support for its regime. However, Iran also is bound to soften its ideological hardliner approach to guarantee this political support in the future, which might undermine the power of the hard-liners in the long term.

## **2. The EU Membership**

The natural gas agreement has an important effect (or consequence) regarding Turkey's EU membership process: the interdependence between the EU, Turkey and Iran, which would help Turkey's interest to become an EU member. The natural gas need of Europe, Turkey's position as a linkage between the EU and the Middle East, and vast Iranian natural gas supplies are the elements of the interdependence context among three. When regarding the contribution that the Iranian natural gas could do for Europe's energy security, it is clear that Europe can achieve diversification of its natural gas supplies.

The International Atomic Energy Agency (IAEA) forecasts that Iran will become the major gas supplier of the European Union.<sup>84</sup> This assessment is true for three reasons. First, Russian natural gas is considered important "in greatest extend" and inevitable as this view was expressed in the European Commission's green paper, "Toward a European Strategy of Energy Supply".<sup>85</sup> However, it increases the dependency of Europe on a single gas supply and puts Europe on a risk. Russia delivers gas to Western Europe through the Ukrainian territory. When Russia dramatically cut the gas deliveries to Ukraine at the end of 1992, supply of Russian gas to Germany was

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<sup>83</sup> British Broadcasting Corporation, "Iran: Commentary Says Cooperation With Greece Will Benefit Turkey," (Source: Voice of the Islamic Republic of Iran, Tehran), 14 March 2002.

<sup>84</sup> BBC Monitoring International Reports, "International Agency Forecasts Iran Will Become Major EU Gas Supplier," (Source: The Financial Times Information), 3 October 2002.

<sup>85</sup> Jurgis Vilemas, "Russia's Energy Policy in Toward an Understanding of Russia," Janusz Bugajski and Marek Michalewski eds (NY: Council on Foreign Relations, May 2002), pp.48-49. [http://www.ciaonet.org/book/buj01/buj01\\_04.pdf](http://www.ciaonet.org/book/buj01/buj01_04.pdf). Accessed 30 October 2003.

halved as a result of Ukraine's usage of the Russian exports to Germany. Therefore, the EU has to diversify its natural gas supply to ensure European energy security.<sup>86</sup>

Second, Turkey's political stability and commitment to the EU facilitates the prospects that Turkey can be a "secure link" for Europe's energy security providing the oil and natural gas of the Middle East, the Caspian and even Central Asia.

Third, Iran possesses vast amount of proven gas reserves and has a strong interest in getting revenues derived from oil and gas for its economy, especially due to the U.S. economic sanctions. The U.S. sanctions increase the importance of the European market for Iran and pushes Iran closer to Europe.

Since Turkey is Iran's shortest link to Europe, the Turco-Iranian gas pipeline will eventually become one of the reasons to justify Turkey's full EU membership. Turkey's membership to the EU would contribute to Turkey's political and economic stability immensely. If Turkey becomes a part of the EU, Europe can ensure its energy supplies in the Middle East, the Caspian and Central Asia, because the EU would be the "neighbor" to those areas.

Turkey's E.U. membership has been a primary objective of Turkish Foreign Policy. The recognition of Turkey as a candidate for accession at the Helsinki European Council in 1999 introduced a new era in the Turkish-European relations.<sup>87</sup> In 2000, the E.U. approved an Accession Partnership Agreement, which included preparations that Turkey must implement before becoming an E.U. member country. Since then, many reforms have been undertaken by Turkey such as the Electricity Market Law in 2001, which would liberalize the energy sector and increase the number of entrepreneurs to help reduce electricity cuts.<sup>88</sup> In October 2002, the E.U. indicated that Turkey still

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<sup>86</sup> See, Elmar Guseinov, "Russian Gas Deliveries to Germany Disrupted," *Russian Press Digest*, 20 October 1992. Also, CNN, "The Tattered Empire, The New Commonwealth," Part Nine by Claire Shipman, 18 September 1992.

<sup>87</sup> Selma Stern, "Turkey's Energy and Foreign Policy, Globalization 2003," (International Consortium for the Advancement of Academic Publication: Athabasca University-Canada). [http://globalization.icaap.org/content/v3.1/03\\_stern.html](http://globalization.icaap.org/content/v3.1/03_stern.html). Accessed 25 July 2003.

<sup>88</sup> Gareth M. Winrow, "Pivotal State or Energy Supplicant? Domestic Structure, External Actors, and Turkish Policy in the Caucasus," *The Middle East Journal*, Winter 2003, Vol.57, Issue 1, p.82.

needed further reforms to become a full member. The E.U. will decide whether to start membership talks with Turkey at the end of 2004.<sup>89</sup>

Europe's long term strategic issue in energy is how best to satisfy the demand and ensure a secure supply. It sees Russia as an inevitable source due to the vast Russian gas production capabilities. By 2020, almost 70% of Europe's gas demand will be imported, and up to 40% of that amount will come from Russia increasing the dependence on Russia.<sup>90</sup>

However, Russian gas supply will not suffice in the event of a political crisis. The need for diversification of supply is still important as a general strategy. Besides, Russia has to develop its energy sector, which will take a long time and require huge investments. Therefore, considering that the European continent is within the reach of the Caspian Basin and the Middle East resources might generate an alternative, if Europe can benefit from Turkey's key position in diversifying gas supplies.<sup>91</sup>

Having proven reserves surpassed only by Russia, Iran's desire to export its natural gas is not a surprise. Iran has India as an option in the East to export its natural gas through Pakistan and Europe in the West through Turkey. The latter overlaps Turkey's ambitions to become an energy hub, achieve economic development, and contribute to its integrity to the West and thereby achieving EU membership. Therefore, the demand and supply projections of Europe are important to understand in evaluating whether Iran has the capacity to supply Europe.

Iran offers a comparable supply capacity, half alone of that of Russia, for the EU's natural gas demand to achieve energy security in the long term. It is projected that Europe is likely to face an increased dependency on imported gas from 40% to more than

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<sup>89</sup> Selma Stern, "Turkey's Energy and Foreign Policy, Globalization 2003," (International Consortium for the Advancement of Academic Publication: Athabasca University-Canada). [http://globalization.icaap.org/content/v3.1/03\\_stern.html](http://globalization.icaap.org/content/v3.1/03_stern.html). Accessed 25 July 2003.

<sup>90</sup> Jurgis Vilemas, "Russia's Energy Policy in Toward an Understanding of Russia," Janusz Bugajski and Marek Michalewski eds (NY: Council on Foreign Relations, May 2002), pp.48-49. [http://www.ciaonet.org/book/buj01/buj01\\_04.pdf](http://www.ciaonet.org/book/buj01/buj01_04.pdf). Accessed 30 October 2003.

<sup>91</sup> Jurgis Vilemas, "Russia's Energy Policy in Toward an Understanding of Russia," Janusz Bugajski and Marek Michalewski eds (NY: Council on Foreign Relations, May 2002), pp.48-49. [http://www.ciaonet.org/book/buj01/buj01\\_04.pdf](http://www.ciaonet.org/book/buj01/buj01_04.pdf). Accessed 30 October 2003.

60% by 2015 mainly on Russia, according to Wood Mackenzie.<sup>92</sup> European suppliers are not likely to provide enough indigenously produced gas based on the numbers of proven reserve estimates. Norway is Europe's largest supplier and has a gas reserve estimate of less than 10% of that of Iran. Europe's three largest suppliers', Norway, the Netherlands, and the United Kingdom, total reserve amount is only 20% compared to that of Iran according to EIA's last estimated proven reserves. These facts suggest that Iran has the capacity to supply the E.U. in natural gas (See Figure 9).<sup>93</sup>

If the yearly consumptions of five top EU countries are compared to total proven reserves of first ten biggest gas supplier countries in Europe, the natural gas reserves in Europe will be depleted in 15 years, if Europe does not import gas. Any sudden increase in the European consumption may even shorten the term. Therefore, Iran's contribution to Europe's energy security can be tremendous. More to the point, this is only achievable by transportation through Turkey. In turn, this would enhance Turkey's geopolitical significance to the EU and such as gas agreement would further Turkey's political objectives (See the yearly consumption of the European countries in Figure 10).

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<sup>92</sup> Pipeline & Gas Journal, "Europeans' Dependency on Imported Gas Expected to Rise by 2015," *Wilson Applied Science & Technology Abstracts*, April 2003, Vol.230, Issue 4, p.12.

<sup>93</sup> Energy Information Administration, "International Energy Outlook 2003: Natural Gas," (Report #: DOE/EIA-0484(2003), 1 May 2003. [http://www.eia.doe.gov/oiaf/ieo/nat\\_gas.html](http://www.eia.doe.gov/oiaf/ieo/nat_gas.html). Accessed 26 November 2003.

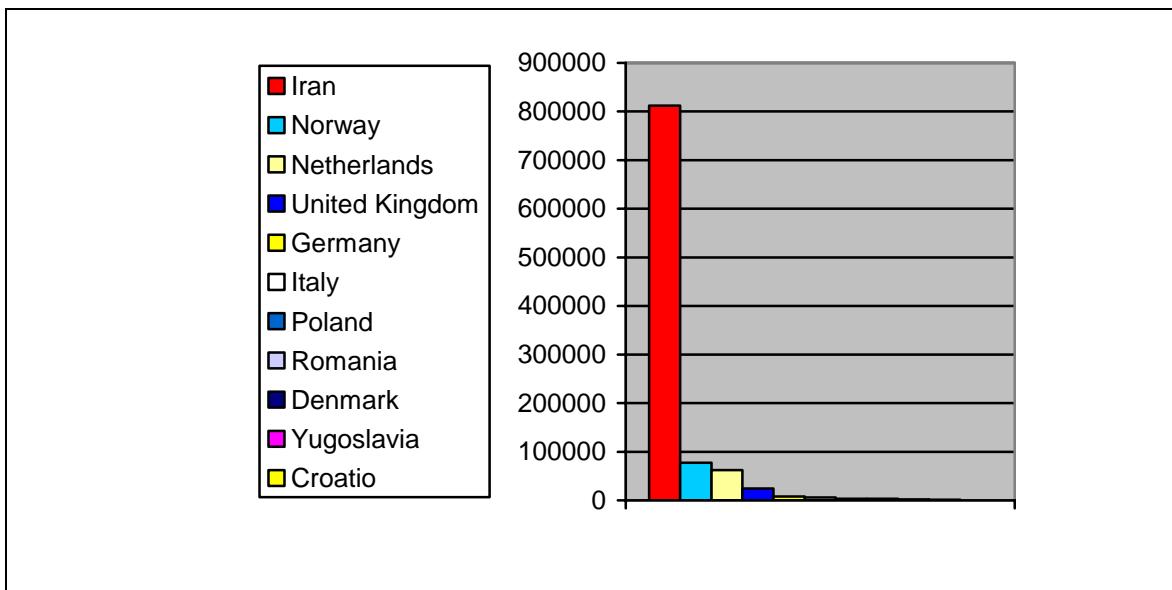


Figure 9. Europe's Estimated Gas Reserves in 2003 (Bcf)<sup>94</sup>

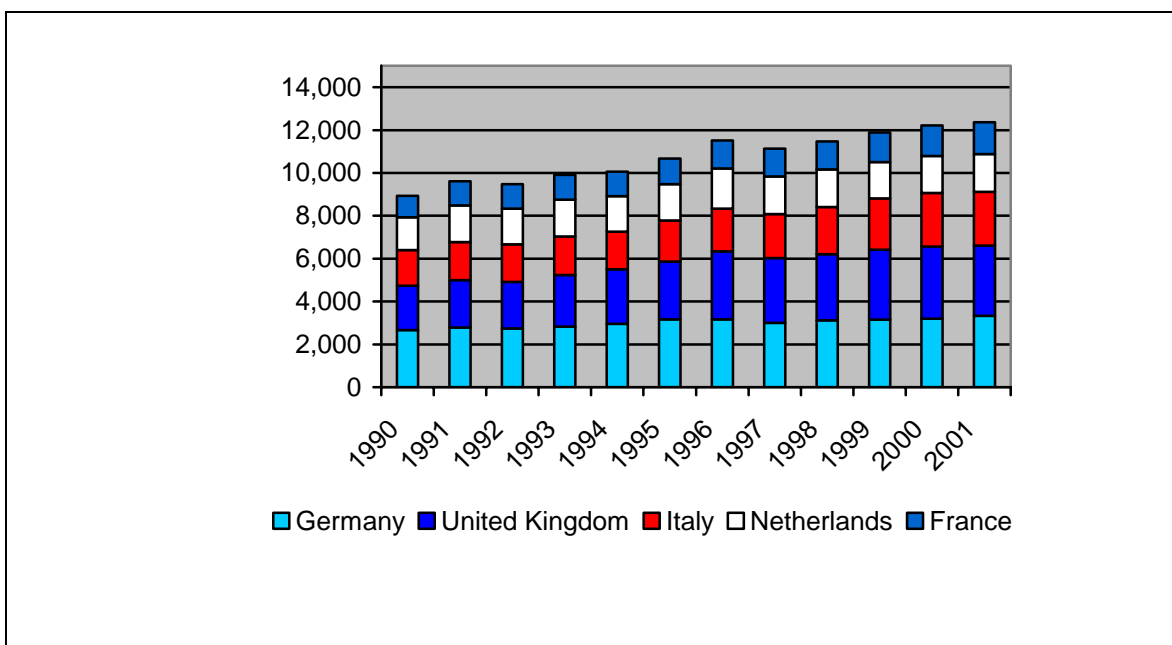


Figure 10. Top 5 European Countries in Consumption (Bcf)<sup>95</sup>

<sup>94</sup> Energy Information Administration, "World Crude Oil and Natural Gas Reserves, Most Recent Estimates." <http://www.eia.doe.gov/emeu/international/reserves.html>. Accessed 2 December 2003.

<sup>95</sup> Energy Information Administration, "World Dry Natural Gas Consumption: 1980-2001." <http://www.eia.doe.gov/pub/international/iealf/table13.xls>. Accessed 2 December 2003.

### **3. Becoming Energy Hub**

It is not a new idea on this page. I mentioned this point in Turkish energy policy priorities on page 35 (under Turkish energy policy priorities)-36 (Haldun Danışman's statement- footnote 62)

Even though Turkey, Russia and Iran compete for the pipeline projects in the Caucasus and the Middle East in order to receive transit fees, three major projects eventually pass through the Turkish territory. First, Russian oil has to be shipped either through Bosphorus or through the BTC (Baku-Tbilisi-Ceyhan) pipeline, while the Blue Stream natural gas pipeline comes directly from Russia under the Black Sea providing the half of the Russian gas supplies to Turkey. Second, the BTC pipeline starts from Azerbaijan, goes through Georgia and passes through Turkish territory ending at the Turkish Mediterranean port Ceyhan. Third, Turkish-Iranian natural gas pipeline is used to ship the Iranian natural gas to Turkey and beyond. Regarding all these projects in the region, Turkey's geostrategic location facilitates becoming an energy hub on the route from the Middle East and the Caspian to Europe. Turkey is a natural passage for the energy transfers, because Turkey sits in the middle of the vast oil and natural gas rich areas on one side and European markets on the other.

Becoming an energy terminal has two benefits for Turkey: first, it can contribute to Turkey's security and stability; second, the interdependence between Turkey and Iran may lead to cooperation in different areas.

Many European consumer countries' interest in securing the gas supply will converge on Turkish territory and thus, enhance Turkey's political and security stability. If Turkey can contribute to Europe's energy security, then Turkey is likely to receive more support for its security and stability than before.

Turkish officials articulated the energy hub prospect of Turkey several times. Following the Under-Secretary at the Ministry of Energy and Natural Resources (See Footnote 62), Haldun Danisman's statement in 1998, then Foreign Minister İsmail Cem in 1999 declared Turkey's aim as "a pivotal member of Eurasia". He pointed to the

construction of the energy pipelines across the Turkish territory as demonstrating this goal.<sup>96</sup>

The former U.S. National Security Advisor in the Carter Administration, Zbigniew Brzezinski suggests that Turkey can become a geostrategic player and become more influential in the region, especially in Caucasus. According to him, Turkey can play such a strategic role as it develops infrastructural and energy capabilities. If other factors, such as physical size, large population and economic potential, are taken into consideration, Turkey should be able to manage becoming an energy terminal among those three significant areas, Europe, the Caspian and the Middle East.<sup>97</sup>

Turkey is on the way to becoming a hub for energy distribution for the developed world, especially the EU. The natural gas pipeline from Iran, an ongoing oil pipeline from Baku to the Turkish Mediterranean port Ceyhan, and another gas pipeline project through Turkey to Greece and beyond are various connections between the abundant reserves of the Caspian and the Middle East, and major ports of the Western Mediterranean and Europe itself. No country stands to benefit from the increased number of the pipelines in the region more than Turkey, and the Iranian natural gas deal with Turkey is a significant step to such benefits.<sup>98</sup>

As for interdependence, increased trade activities are likely to follow Turkey-Iran natural gas cooperation. This creates a larger mutual reliance within the broader region in economic and political terms. Such mutual cooperation may create preconditions for increased cooperation at the state and regime level, with the Central Asian states in particular. This prospect is especially important for United States objectives, which stipulate the sovereignty, independence, territorial integrity, democratization and economic prosperity for social stability of the Central Asian states. These objectives are especially important to promote the moderate view of Islam in Central Asian Muslim

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<sup>96</sup> Gareth M. Winrow, "Pivotal State or Energy Supplicant? Domestic Structure, External Actors, and Turkish Policy in the Caucasus," *The Middle East Journal*, Winter 2003, Vol.57, Issue 1, p.78.

<sup>97</sup> See Brzezinski's comment in Gareth M. Winrow, "Pivotal State or Energy Supplicant? Domestic Structure, External Actors, and Turkish Policy in the Caucasus," *The Middle East Journal*, Winter 2003, Vol.57, Issue 1, p.76.

<sup>98</sup> Financial Express, "India and Turkey," *Financial Times Information*, 27 August 2003.

societies and limit the Russian and Chinese interests that threaten the sovereignty and independence of the Central Asian states.<sup>99</sup>

The context between Turkey and Iran is an “interdependence”, since Turkey needs Iranian cooperation for its natural gas, and Iran needs Turkey for the natural gas pipelines to Europe as well as Turkey’s political assistance in international relations. As a Washington attorney that serves on the board of a Russian petrochemical company argues, “Pipelines, [...] can all be contributors to stability. They create mutual dependence and can reduce tension”.<sup>100</sup> Therefore, Turkey’s reliance on the Iranian natural gas should be viewed through an “interdependence” and “cooperation” window.

The interdependence is likely to include many actors. The Turco-Iranian natural gas deal not only connects Turkey and Iran, but also it is likely to connect Turkey to Greece and beyond. On the one hand, the contract between Turkey and Greece, which was signed at the end of 2002, stipulates that 285 km. long pipeline will connect the two countries. Greece also signed a memorandum with Iran to ensure additional Iranian gas supplies. Looking west, Greek State-owned Pipeline Company, DEPA, signed a contract with the Italian company, Edison, to establish a sub-sea pipeline between Greece and Italy and to the heart of Europe.<sup>101</sup>

On the other hand, the EU/Iran Working Group on Energy met in Tehran in October 2002 concentrating their agenda on the energy sector. According to the Europe Information Services, the EU is looking to guarantee itself a “reliable long-term energy supplier” in exchange for opening up the European market to Iranian products and stepping up investments in Iran. In order to achieve that, the European Commission considers Turkey and Greece important for facilitating European access to the Iranian gas, which will diversify EU’s supplies.<sup>102</sup> Regarding that, Turkey is the most optimum

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<sup>99</sup> See, Jim Nichol, “Central Asia’s Security: Issues and Implications for U.S. Interests,” *Congressional Information Services*, 30 August 1999. Also the testimony of Stephen Sestanovich, the U.S. Ambassador-at-Large and Special Advisor to the Secretary of State for the New Independent States, on 30 April 1998.

<sup>100</sup> The Philadelphia Inquirer, “Pipeline Diplomacy; Crisscrossing the Globe, Pipes Carry Natural Resources – As Well As Wealth, Stability, Power and Political Tension,” 26 October 2003, p.C01.

<sup>101</sup> John Simkins, “Surge of Interest in New Gas Pipeline Network: Energy,” *The Financial Times*, 12 November 2002, p.4.

<sup>102</sup> Europe Information Service, “EU/Iran: Development of Energy Co-Operation,” 29 October 2002.

route and can easily transfer natural gas from Iran to the EU. Thus the interdependence is not only likely to happen between Turkey and Iran, but among all the E.U., Turkey and Iran.

#### **4. Turkey-Greece Cooperation in Natural Gas Pipelines to Europe**

Turkey's natural gas cooperation with Iran has significant implications for regional stability and evolution of European energy security prospects regarding Greek-Turkish disagreements over the Aegean Sea and Turkey's relations with the EU.<sup>103</sup> Turkey's Iranian natural gas cooperation entails political and economic benefits with Greece. The natural gas pipeline between Turkey and Iran not only connects Iran to Turkey, but also Turkey to Greece. Turkey and Greece are frequently at odds with each other especially over Aegean Sea issues. Following the earthquakes in 1999 that hit both countries, a thaw in relations between Turkey and Greece started and produced some good headlines such as the joint visit of Greek Foreign Minister Yorgo Papandreou and Turkish Foreign Minister İsmail Cem to Israel and the Palestinian territories. Strong evidence of rapprochement emerged in March 2002, when Turkey and Greece signed a contract to build a natural gas pipeline that would transfer Iranian and Azeri gas to Greece.<sup>104</sup> Recently, the current Greek Prime Minister, Costas Karamanlis, stated that "our [Greek] goal is to improve bilateral cooperation with Turkey in all areas, to further develop relations and maintain a positive atmosphere between the peoples of the two countries." In recent years, the trade volume between Greece and Turkey increased extensively and exceeded U.S.\$1.3 billion in 2003, and 3.2 % of foreign investments in Turkey comes from Greece, according to Karamanlis.<sup>105</sup>

Greece made several attempts regarding the purchase of natural gas. Greece signed a memorandum of understanding with Iran to ensure additional gas supplies. In addition, Greece has a declaration with Azerbaijan for cooperation in the gas sector.

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<sup>103</sup> M2 Presswire, "THE WHITE HOUSE: A National Security Strategy For a New Century," 7 January 2000, p.1.

<sup>104</sup> Jon Gorvett, "Talking Turkey: The Logic of Economics Helps Bury Traditional Hatchets in Turkey's Neighborhood," *Washington Report on the Middle East Affairs*, 31 July 2002, Vol.XXI, No.5, p.29.

<sup>105</sup> Turkish Daily News, "Karamanlis: We Support Turkey's EU Membership." [http://www.turkishdailynews.com/old\\_editions/05\\_27\\_04/for.htm#f6](http://www.turkishdailynews.com/old_editions/05_27_04/for.htm#f6). Accessed 4 June 2004.

Turkey's central location looms large for Greece to get the gas from the Caspian and the Middle East.<sup>106</sup>

Currently, there is no pipeline between Turkey and Greece. Greece and Turkey's state-owned pipeline companies, BOTAS and DEPA, will construct a 180-mile pipeline across land border from Ankara, Turkey to the Northern Aegean Greek port of Alexandroupoulos due for completion by 2005, according to their contract. Additionally, the two countries agreed to work jointly beyond Greece towards Central Europe, Italy in particular.<sup>107</sup>

The Greek-Turkish gas pipeline agreement, as a result of Turco-Iranian gas pipeline deal, might benefit Turkey in two areas, political and economic, since the pipeline deal between Greece and Turkey leads to interdependence. First, the political tension that has increased over the Aegean Sea from time to time might settle down permanently, if Turkey and Greece manage to maximize their cooperation in other issues as well as gas pipelines.

Second, Turkey and Greece might consider reducing their defense expenditures in the Aegean Sea area following a political rapprochement, which would benefit both sides in an economic sense. Beside that, the transit fees of natural gas transportation to Greece are also likely to contribute to Turkey's economy as a result of Turkey's increased transit status, which gained impetus with the extension of the Turco-Iranian natural gas pipeline to Greece.<sup>108</sup>

Turkey may also derive some other advantages from this cooperation, such as a possible support of Greece for Turkey's membership to the European Union and increased trade relations. As Yannis Papantoniou, the Defense Minister of Greece in 2001, declared, Greece sees Turkey as "indispensable but a long term investment of which Turkey's EU membership is a cornerstone".<sup>109</sup> On the other side, Mesut Yılmaz,

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<sup>106</sup> Emre Engür, "Turkey Determined to Remain at the Center of East-West Energy Corridor," *Oil&Gas Journal*, 14 January 2002, p.60.

<sup>107</sup> Comtex News Network, "Turkish-Greek Pipeline Deal Links Caspian Producers to European Markets," 24 February 2003.

<sup>108</sup> Agence France Presse, "Greek Minister in Ankara to Discuss Caspian Gas Imports," 28 March 2002.

<sup>109</sup> John Simkins, "Greece-Turkey Relations," *The Financial Times*, 21 November 2002), p.4.

the Turkish Deputy Prime Minister in 2002, called the pipeline agreement “important” and pointed out that “the joint efforts of Greek and Turkish businessmen would enable them to be advantageous in opening to Middle Eastern, Asian and East European markets.”<sup>110</sup> Therefore, the Turkish-Iranian natural gas deal is the first main reason that might trigger rapprochement between Turkey and Greece.

## **5. Russia**

Turkish-Iranian natural gas cooperation does not fit into the Russian interest in the region, because Iranian natural gas obtains a share in Turkish energy market. In addition, Iranian natural gas raises the issue of supplying Europe in gas and undermines the Russian monopoly of Europe’s gas imports. Therefore, the Turkish-Iranian natural gas agreement is less likely to serve the Russian interest as it will be further explained in the next chapter.

In short, Russia’s political and economic interest stipulates that they control pipelines transport in Central Asian oil and gas to the world markets. In the larger sense, Russia puts importance on having tight integration with the Former Soviet Union republics, does not want them to increase their role in the Middle Asian politics, tries to keep the states that might change this policy out of the region and tries to increase the need of Central Asian republics for Russia to maintain the stability. For all these reasons, Russia has opposed any pipeline project in the region which does not pass through the Russian territory. The Turkish-Iranian natural gas pipeline is one of the projects that do not pass through the Russian territory and therefore undermines the Russian interest in Central Asia. The other project is the BTC (Baku-Tbilisi-Ceyhan) pipeline. The BTC and Turkey-Iran Gas pipelines offer alternative routes to the Russian pipelines to export Central Asia’s oil and gas and help maximize those republics to mobilize their economic potential.<sup>111</sup>

However, there are some prospects where Turkey may have some advantages vis-à-vis Russia regarding the Turkish-Iranian gas pipeline. First, Turkey might be able to

<sup>110</sup> British Broadcasting Corporation (BBC Monitoring Europe), “Turkish Deputy Premier, Greek Minister Back Rapprochement, EU Entry,” (Source: Anatolia News Agency-Ankara), 1 June 2002.

<sup>111</sup> Dr. Yelda Demirağ is Scholar in Department of Political Science and International Relations in Baskent University, Ankara. Yelda Demirağ, “Main Characters of Petropolicy: Russia’s and U.S.’s Oil Policies in the Central Asia and Caucasus,” *TurkishNewsLine.com*, 19 April 2004. <http://www.turkishnewslines.com/detay.php?detayid=174>. Accessed 22 April 2004.

keep the Iranian gas supply as a trump card against Russia, because Turkey obtains a strategic energy source diversification in natural gas through Iranian gas agreement. Turkey is likely to import natural gas from Russia as long as the demand exists, and its imports will probably increase in absolute term. However, it is possible that Russia wants to ensure the Russian share in the Turkish gas market not to reduce. Because Iranian gas is a potential rival, Russia might pursue a more compromising stance in its bilateral relations with Turkey to keep its market share intact.

Second, Turkey might obtain leverage in pipeline politics vis-à-vis Russia in the region given Turkey's status as a rising energy distributor. "You have leverage, if you are on the critical path" argues Sarah C. Carey, a Washington attorney, who serves on the board of Yukos- one of the Russia's largest petrochemical companies.<sup>112</sup> In this sense, the Turkish-Iranian natural gas agreement is an indirect contributor to Turkey's advantageous position vis-à-vis Russia. Moreover, considering the political and security support of the United States for the pipelines, it is clear that the U.S. support even provides more "leverage" for Turkey.

Given the advantage that the pipelines can grant the host territory, Turkey's increased role as a major energy distributor in the region in addition to Bosphorus' limitations for shipping might convince Russia to transfer its oil and gas through BTC pipeline, which would also serve Turkey's interest. According to Nefte Compass, Energy Intelligence Group's weekly publication in oil and gas, the Kremlin sent a letter to Russia's Energy Ministry asking them to perform an analysis on the proposal of Rosneftegasstroy, Russian Joint-Stock Company for Oil and Gas Construction, regarding a plan to build a pipeline from the Russian Black Sea port of Novorossiysk to Georgia.<sup>113</sup> Despite the fact that an agreement has not been reached yet between Russia, Georgia and Azerbaijan, Russia's role is decreasing regarding the pipeline politics in the Caucasus and the Middle East with the increase of the BTC and Turkish-Iranian gas pipelines.

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<sup>112</sup> Steve Goldstein, "Pipeline Diplomacy; Crisscrossing the Globe, Pipes Carry Natural Resources – As Well As Wealth, Stability, Power and Political Tension," *The Philadelphia Inquirer*, 26 October 2003, p.C01.

<sup>113</sup> Energy Intelligence Group, "Novo BTC: Moscow Considers Joining BTC Pipeline," *Nefte Compass*, 22 July 2003.

Third, the Turkish-Iranian natural gas cooperation might have another indirect benefit. If Turkey's increasing role in pipeline politics can persuade Russia to agree to transport some of its oil and gas exports through BTC pipeline, it will serve to reduce the risk of accidents of the ships with crude oil in the Bosphorus.<sup>114</sup>

## **6. Security Benefits Regarding the PKK and Islamism**

The Turkish-Iranian natural gas agreement's benefits on the security level are internally focused from the Turkish perspective as İsmail Cem, Turkish Foreign Minister in 2000, stated in an interview with Turkish Daily News reporter.<sup>115</sup> As an illegal separatist armed organization, the PKK's actions and the effects of the perceived Islamic influence from Iran are two factors that Turkey concerns about.

In the past, Turkey and Iran had tensions over the PKK issue. Turkey accused Iran many times of harboring PKK militants/members and doing nothing against the PKK infiltrations from Iran to Turkey, which undermined Turkey's internal security, all of which Iran constantly denied. During the struggle against PKK, Turkey occasionally turned to Iran to seek a solution for expelling alleged PKK members on its soil. In response to the accusations of harboring the PKK members, Iran blamed Turkey for violating its borders with warplanes and attacking its provinces.<sup>116</sup>

Iran opened a good window of opportunity with the Turkish-Iranian gas agreement to transform its vast amount of natural gas reserves into revenues. At this point, there are some questions that need to be examined to determine whether Turkey can benefit from the Turkish-Iranian gas agreement particularly in terms of security. Some certain indicators must be examined to see how much Iran cares about maintaining its good relations with Turkey and whether they care about Turkey's concerns.

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<sup>114</sup> Turkish Press Review, "Agreement Signals Altered Russian Stance on Baku-Ceyhan," (Source: Cumhuriyet), 25 May 2002. <http://www.byegm.gov.tr/YAYINLARIMIZ/CHR/ING2002/05/02x05x28.HTM#%207>. Accessed 1 May 2004.

<sup>115</sup> İlnur Çevik, "Cem: Turkey Is a World Power that Should Be Taken Into Account," *Turkish Daily News*, 31 July 2000. [http://www.turkishdailynews.com/old\\_editions/07\\_31\\_00/for.htm#f2](http://www.turkishdailynews.com/old_editions/07_31_00/for.htm#f2). Accessed 21 April 2004.

<sup>116</sup> St.Louis Post-Dispatch (Missouri), "Turkish Leader Accused Iran of Exporting Extremism," 11 May 1999, p.A7.

There are three significant developments, which indicate that Turkey does benefit indirectly from the natural gas agreement in terms of security.

The first indicator was evident in August 1999 following a security summit held between Turkey and Iran. Under pressure from Turkey, Iran agreed to start 'Concomitant Military Operations' against the PKK members after three days of intense talks and they set up a hot line to coordinate their efforts. Turkey and Iran signed the agreement during the Supreme Security Commission meeting, which was headed by the Turkish Interior Ministry Undersecretary, Yahya Gür, and the Iranian Deputy Minister of the Interior, Gulan Huseyin Bolandiyan. The impact of the natural gas cooperation to the security cooperation efforts between two countries might not be seen directly, however, the natural gas agreement is the first and biggest step towards increased relations between the two countries since the Iranian Revolution.<sup>117</sup>

Despite the fact that an agreement about security and cooperation between Turkey and Iran was signed in 1992, Turkey kept complaining about that the Iranian counterparts did not display a commitment to prevent the PKK's cross-border activities.<sup>118</sup> The border security became specific with the gas initial agreement in 1999 between the two countries. However, it is worth noting that such an intense security agreement between Iran and Turkey did not occur prior to signing of the initial natural gas deal in 1996.<sup>119</sup>

The relations in security issues gained new momentum on May 8<sup>th</sup>, 2001. During the visit of the Turkish Interior Minister, Saadettin Tantan, his Iranian counterpart, Mousavi-Lari drew attention to the uniqueness of the Joint Security Committee that was set up between the two countries.<sup>120</sup> Security issues were top on the agenda during the meetings. Turkish diplomats presented to Iranian Interior Minister, Abdol Vahid Mussavi-Lari, a 163-page file about the activities of PKK, Hezbollah and other

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<sup>117</sup> See, The Baltimore Sun Company, "Iran Agrees to Fight Kurds with Turkey," (Source: Associated Press), 14 August 1999, p.8A. Also, Middle East News Items, "Turkey and Iran Agree on anti-PKK Cooperation," *Info-Prod Research (Middle East) Ltd.*, 15 August 1999.

<sup>118</sup> Middle East News Items, "Iran and Turkey Sign Border Security Agreement," *Info-Prod Research (Middle East) Ltd.*, 5 October 1999.

<sup>119</sup> BBC cites "The Vision of the Islamic Republic of Iran Network 1" on December 9. BBC Monitoring Middle East, "Iran and Turkey Sign Security Agreements," *The British Broadcasting Company*, 10 December 1998.

<sup>120</sup> Turkish Daily News, "Tantan Gives New Momentum to Improving Ties with Iran," 14 May 2001.

fundamentalist groups in Iran, according the newspaper Turkish Daily News.<sup>121</sup> This visit and the Turkish Foreign Minister's visit to Iran in February 2001 helped to ease the relations between Turkey and Iran. When Turkish Supreme Court banned the "Islamist" Virtue (Fazilet) Party from the politics, this event passed without comments from the Iranian government and the Iranian media. Compared to the "silence" that Iranian government and media displayed for the ban of predecessor party, Welfare (Refah) Party, some 17 months ago, Iranian decision "to stay out" of the domestic issues of Turkey was even greater in the second event. According Robert Olson, the serenity of talks belied the problems concerning the completion of the gas pipeline.<sup>122</sup>

Secondly, while the Supreme Security Commission that was set up in security field between Turkey and Iran continued their mission, Iran proposed that the energy cooperation be made in return for recognizing the PKK/KADEK as a terrorist organization. Even though Ankara responded to this proposal stating that it was not acceptable to link these two issues together, Iran's proposition proved that maintaining good relations with Turkey was one of the first priorities of Iran in the bilateral relations with Turkey. Therefore, Turkey's natural gas cooperation with Iran is likely to contribute to Turkey's domestic security in the long term due to increased interdependence and shared interest.<sup>123</sup>

Third, joint operations coordinated by the Turkish and Iranian armed forces are the last indicator to illustrate Iran's commitment to maintaining good relations with Turkey. In June 2003, Iran and Turkey started a "simultaneous" operation after a large group of PKK members crossed into Iran from their camps in northern Iraq, raided an outpost station and killed eight Iranian soldiers, according to the Turkish newspaper Milliyet.<sup>124</sup>

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<sup>121</sup> Turkish Daily News, "Tantan Continues Iran Visit," 9 May 2001.  
[http://www.turkishdailynews.com/old\\_editions/05\\_09\\_01/for.htm#f11](http://www.turkishdailynews.com/old_editions/05_09_01/for.htm#f11). Accessed 1 may 2004.

<sup>122</sup> Robert Olson, "Turkey-Iran Relations, 2000-2001: The Caspian, Azerbaijan and the Kurds," *Middle East Policy*, Jun 2002, Vol.9, No.2, pp.115-116.

<sup>123</sup> See, The Baltimore Sun, "Iran Agrees to Fight Kurds with Turkey," *The Baltimore Sun Company*, (Source: Associated Press), 14 August 1999, p.A8. Also, Turkish Press Review, "Relations with Iran," 29 February 2004. <http://www.turkishpress.com/specials/2003review/iran.asp>. Accessed 29 February 2004.

<sup>124</sup> Namik Durukan, "TSK Supports Iran's Operation Against PKK/KADEK Militants," *Financial Times Information*, (Source: Milliyet Newspaper), 30 June 2003.  
<http://www.milliyet.com/2003/06/30/dunya/index.html>. Accessed 12 January 2004.

The same year, the Iranian police forces held comprehensive operations against the PKK members in Western Iran. After the operation in November 2003, Iran extradited 7 PKK members, who had been kept detained since March 2003. Following the operation, the Iranian West province mayor stated that Iran was “decisive” in its fights against PKK.<sup>125</sup>

All these developments mentioned above suggest that Iran places a significant importance on maintaining good relations with Turkey. The natural gas agreement creates the interdependence between two countries, and provides leverage to Turkey over Iran since Turkey is the “customer” and the “route to Europe” for the Iranian natural gas. As an article in the Philadelphia Inquirer argues, “if landlocked Petrolestan wants to get its product to a seaport in Exportonia, the route of a pipeline becomes a delicate strategic calculation”.<sup>126</sup> Therefore, the agreement persuades Iran to recognize Turkey’s security concerns.

The other Turkish internal security concern other than PKK was Islamism. The emergence of the Islamists in Turkish politics has added a lot to Turkish suspicions towards Iran. Even though Iran had abandoned the regime export as a policy goal at the end of the Iran-Iraq War in 1988 as I will mention in next chapter, the electoral success of the Islamic elements in Turkish domestic politics raised a debate about the links between the Islamists in Turkey and Iran due to two major domestic events.<sup>127</sup> First, when Erbakan, the Turkish Prime Minister in 1996, engaged increased relations with Iran, he tried to involve Iran to intensify his position in Turkish politics vis-à-vis the secular elements in Turkey. That became the most significant domestic concern of the secular elite in Turkey and was perceived as a clear challenge to the secular state structure of the Turkish Republic.<sup>128</sup>

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<sup>125</sup> Milliyet Newspaper, “Iran’da PKK’ya Operasyon (Operation to PKK in Iran),” 26 November 2003. <http://www.milliyet.com.tr/2003/11/26/guncel/gun14.html>. Accessed 9 December 2003. See also the issue of 30 July 2003.

<sup>126</sup> The Philadelphia Inquirer, “Pipeline Diplomacy; Crisscrossing the Globe, Pipes Carry Natural Resources – As Well As Wealth, Stability, Power and Political Tension,” 26 October 2003, p.C01.

<sup>127</sup> F.Stephen Larrabee and Ian O.Lesser, *Turkish Foreign Policy in an Age of Uncertainty*, (RAND, National Security Research Division, 2003), p.147.

<sup>128</sup> MEED Quarterly Report – Iran, “Political Outlook,” September 1996, p.3.

Second, the Baqeri crisis in 1997 set another reason for suspicions about Iran's involvement in Islamist activities in Turkey. Briefly, the Iranian Ambassador Mohammad-Reza Baqeri addressed a group in Sincan, a district of Ankara, under the posters of the Palestinian Islamic Jihad and Hezbollah leaders. His message included that those who signed an agreement with Israel and the U.S. would eventually be punished, implying Turkey's Security Cooperation Agreement with Israel. Soon after his address, Baqeri was declared "persona non grata" as well as the Iranian consul general to Istanbul and Erzurum. As a response, Iran declared the Turkey's Tehran Ambassador the same way afterwards.<sup>129</sup>

Motivated with security concerns due to the U.S. opposition to the current Iranian regime, Iran today is more likely to follow a pragmatic policy in favor of its national interest over Islamic ideology. Based on the indicators, the Turkish-Iranian natural gas agreement is definitely one of the reasons in facilitating the interdependence and persuading Iran to follow a smooth policy toward Turkey, which mitigates Turkey's Islamic threat concerns from Iran.<sup>130</sup>

Commercial relations between Turkey and Iran were heavily influenced by the Turkish foreign policy makers' perception about Iran. When rumors rose about cancellation of the pipeline projects due to tensions between Turkey and Iran as well as the pressures from the U.S., former Iranian Foreign Minister, Ali Akbar Velayeti, arrived in Ankara and called for "moderation" between the two sides. Velayeti's visit displays Iran's willingness to give importance to maintaining good relations with Turkey due to the natural gas agreement.<sup>131</sup>

Turkey is not likely to ignore its concerns as related to Iran. Instead, Turkey's tendency is to exert pressure on Iran and to force Iran to face the Turkish concerns either through crises or dialogue. So far, Turkey appeared to have received some positive

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<sup>129</sup> Bülent Aras, "Turkish Foreign Policy Towards Iran: Ideology and Foreign Policy in Flux," *Journal of Third World Studies*, Spring 2001, Vol.18, No.1, pp.107-108.

<sup>130</sup> Shireen Hunter, "Iran's Pragmatic Regional Policy," *Journal of International Affairs*, Spring 2003, Vol.56, No.2, pp.139-140.

<sup>131</sup> Bülent Aras, *Turkish Foreign Policy Towards Iran: Ideology and Foreign Policy in Flux*, *Journal of Third World Studies*, Spring 2001, Vol.18, No.1, pp.107-108. Source cited Turkish Newspaper Hürriyet on 11 March 1997.

responses in regards to the PKK and Islamic fundamentalism concerns, since Iran has displayed a policy implementation that puts the first priority on having “fraternal” ties with Turkey. The Turkish-Iranian gas agreement in 1996 marks a point after which the relations significantly increased in a very positive way. Therefore, Turkey has created a leverage over Iran regarding its domestic security issues taking the advantage of the gas agreement and is definitely using the gas agreement as a tool to achieve its policy goals.

## **7. Economic Benefits**

Economically, Turkey can benefit in two areas as a result of the natural gas agreement with Iran: increased trade volume with Iran and maybe with the Central Asian Republics through Iran, and the revenues from the natural gas transit fees to Europe. Despite the fact that Turkey and Iran had contentions in their bilateral relations, the two countries have made positive studies towards cooperation. Natural gas agreement between Turkey and Iran is the foremost among such prospects for increased commercial activities due its large volume.<sup>132</sup>

Iranian Foreign Minister Kamal Kharrazi’s visit to Turkey in January 2000 aimed to increase economic and political ties with Turkey. During his visit, Kharrazi stated that both countries had to improve the economic and political relations, whereas his Turkish counterpart, İsmail Cem, said that the mutual cooperation with Iran had been developing during last two years. After staying two days in the capital, Kharrazi’s scheduled meeting with the Turkish businessmen in Istanbul, where he invited the Turkish private sector to Iran and through Iran to Central Asia, indicated Iran’s efforts to increase the commercial ties with Turkey. There is little doubt about whether the natural gas deal was an important aspect, since the agreement was an item on the agenda during the visit.<sup>133</sup>

The period between 1998 and 2001 is a good example of the increase in trade between Turkey and Iran. According to the Turkish State Statistics Organization and IRNA (Islamic Republic News Agency-Iran), the trade volume between Turkey and Iran

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<sup>132</sup> Bülent Aras, *Turkish Foreign Policy Towards Iran: Ideology and Foreign Policy in Flux*, Journal of Third World Studies, Spring 2001, Vol.18, No.1, p.115.

<sup>133</sup> Turkish Probe, “Kharrazi’s Visit: An Opportunity to Enhance Relations Between Iran and Turkey,” 24 January 2000.

increased 20% between 1998 and 1999. In the first eight months of 2000, the trade volume achieved nearly the same amount as 1999 and it increased by 22% in 2001.<sup>134</sup>

Turkish State Minister Kürsad Tüzmen's visit to Tehran in October 2003 reflects Turkey's willingness to improve its trade with Iran. During his visit with nearly 300 businessmen from Turkey, the Turkish state minister stated that Turkey was committed to pay the price of natural gas purchased from Iran in exchange for goods or services.<sup>135</sup> Thus natural gas cooperation with Iran benefits Turkey by creating an increase in commercial ties with Iran.

Iran's commitment to have good relations with Western Europe is another reason that Turkey may benefit from its natural gas agreement with Iran. Historically, Iran has had an affinity towards Europe due to political and economic reasons not ideological. Politically, Europe was not deeply involved in Iran's political and military affairs during the Shah's Regime and it offered a temporary home to Ayatollah Khomeini, the leader of the Islamic Revolution in Iran, when he was forced out of Iraq at the behest of the Shah.<sup>136</sup>

Economically, Iran could not afford to confront Europe and the U.S. simultaneously. Therefore, Europe may turn into the savior of Iran's economy by becoming the most important client of Iran's natural gas and oil resources. In relation to that context, Turkey offers the connection between Europe and Iran. If the object is to transit Iranian natural gas to Europe, Turkey is the only viable option to achieve it.<sup>137</sup>

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<sup>134</sup> See, Business and Industry, "Iran and Turkey-Increased Trade Benefits Both," March 2002, Vol.7, No.2, P.1. Also, Info-Prod Research (Middle East) Ltd., "Iran-Turkey Trade Exchanges Increase," 14 March 2000.

<sup>135</sup> See, The British Broadcasting Corporation, "Turkish Minister Assesses Tehran Contacts, Economic Cooperation," (Source: Text report of Anatolia News Agency, Ankara), 2 October 2003. Also, Turkish Press Review, "Relations with Iran," 29 February 2004. <http://www.turkishpress.com/specials/2003review/iran.asp>. Accessed 29 February 2004.

<sup>136</sup> Shireen Hunter, *Iran and the World*, (Bloomington and Indianapolis: Indiana Press University, 1990), p.148.

<sup>137</sup> Adam Tarock, "Iran-Western Relations on the Mend," *British Journal of the Middle Eastern Studies*, May 1991, Vol.26, No.1, pp.44-45.

## 8. Environmental Benefits

Regarding the environmental concerns, the direct impact of increased natural gas usage instead of coal or oil in major areas, such as heating and electricity production, is diminished air pollution. According to a study of the PEW Center about six countries including Turkey, improved air quality is one of the common primary concerns in those six developing countries as well as economic growth and energy security. The average carbon dioxide intensity in Turkey is estimated to be 210 million tons in 2020 seriously threatening the air quality.<sup>138</sup> Natural gas has the highest environmental value in replacing coal use in residential sector, power generation and industrial sector. Moreover, natural gas might also have a relative advantage vis-à-vis coal in areas where coal is more expensive and hard to utilize.<sup>139</sup> Therefore, the Turkish-Iranian natural gas agreement might encourage the natural gas usage due to Turkey's increased gas imports, while helping diminish the weather pollution.

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<sup>138</sup> The Pew Center on Global Climate Change aims to bring business leaders, policy makers, scientists, and other experts together, and constitute a new approach to complex and often controversial issues. PEW Center, "Climate Change Mitigation in Developing Countries: Brazil, China, India, Mexico, South Africa and Turkey, Executive Summary." [http://www.pewclimate.org/global-warming-in-depth/all\\_reports/climate\\_change\\_mitigation/dev\\_mitigation\\_execs.cfm](http://www.pewclimate.org/global-warming-in-depth/all_reports/climate_change_mitigation/dev_mitigation_execs.cfm). Accessed 27 April 2004.

<sup>139</sup> Dong Xiucheng and Jeffrey Logan, "Expanding Natural Gas Use in China," *Advanced International Studies Unit- Joint Sino-U.S. Research Report*, April 2002, p.2. <http://www.pnl.gov/china/Chgexsm.pdf>. Accessed 28 April 2004.

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## **IV. THE DIFFICULTIES OF TURKEY'S NATURAL GAS COOPERATION WITH IRAN**

### **A. INTRODUCTION**

The framework of this chapter is to examine the possible difficulties that the Turkey-Iran natural gas agreement may create for the global actors in the Middle East and to look at the policy recommendations for Turkey's future strategy. The chapter's focus is a timeline from 1990 until today and looks at four actors: Turkey, Iran, Russia and the United States. It is crucial to comprehend the policy priorities of Turkey and Iran in order to analyze the controversy created by the increased Turkish-Iranian relations through the natural gas agreement. However, reviewing Turkey and Iran's incentives is only a small part of the rivalry over the Middle East's energy rich sources. In a broader spectrum, I also look at the American and Russian motivations.

As explained earlier in introduction, the natural gas agreement, which was signed in August 1996 between Turkish Prime Minister, Necmettin Erbakan, and Iranian Oil Minister, Gholamreza Agazadeh, stipulates the Iranian natural gas sales to Turkey in amount of 140 billion cubic feet per year.<sup>140</sup> The need for the agreement between Turkey and Iran emerged as a consequence of Turkey's growing energy need and Turkey's ambitions to play a key role as well as Iran's commercial interest as it was explained in previous chapter. The Turkish interest in Iran has two tracks, political/security and economic. The Turco-Iranian gas agreement is related to those tracks, because it creates a major cause for interdependency between Turkey and Iran, and makes two countries closer to each other in seeking solutions for their concerns.

Of particular concern is the idea that Turkey's natural gas deal with Iran is likely to disturb the Russian interest and create concerns American objectives in the region. For Russia, Iran's natural gas sale to Turkey may rival Russia's Turkish and European sales. Moreover, the natural gas cooperation may help Turkey to enhance its role in the Caspian Basin and Central Asia while undermining the significance of the Russian pipelines, which were the only alternative for the Central Asian Republics to export their oil and

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<sup>140</sup> Xinhua News Agency, "Iran to Sign Gas Deal with Turkey," 8 August 1996.

gas. Thus, it can increase Turkey's regional role. Russia's leverage over the Former Soviet Union Republics would be undermined by such a development.

For the U.S., the natural gas agreement between Turkey and Iran is in conflict with the U.S. strategy of isolating Iran. This issue has major sides. First, the natural gas deal between Turkey and Iran provides gas revenues to Iran and is likely to contribute to Iran's geopolitical significance in pipeline politics in the region. Iran's key location at the nexus of many routes might persuade Central Asian republics to consider Iran as the only good option to export their oil and gas, which might also undermine the significance of the U.S.-supported BTC (Baku-Tbilisi-Ceyhan) pipeline.

Second, the effectiveness of the U.S. sanctions against Iran that are highly related to the U.S. security issues might diminish. Iran is perceived as a security concern by the United States due to its WMD acquisition efforts and sponsorship of international terrorism. The gas agreement between Turkey and Iran undermines the sanctions' effectiveness. Therefore, Iran's increasing influence in the region is closely watched by the United States.

The key questions of this chapter are:

- How does Turkey's natural gas agreement with Iran effect the other states' interests in the region?
- What are the Iranian motivations in the Middle East regarding the pipeline politics in the region?
- Which stance is the Russian Federation likely to take vis-à-vis increasing Turkish-Iranian relations in the long term and how likely are the U.S.-Turkey relations to be effected by the natural gas agreement between Turkey and Iran?

Turkey is one of the most important countries in the Middle East regarding its geopolitical importance in energy and security issues. Therefore, I will first examine the Turkish and Iranian foreign policy priorities in the Middle East as well as the overall policy incentives. Then I will explore the policy objectives of Russia and the United

States. Finally, I will suggest some policy recommendations for Turkey to maintain its good relations with its ally, the U.S., and neighbors, Russia and Iran.

## **1. Turkey**

At the beginning of the 21<sup>st</sup> century, Turkey faced a more troubled environment in its region than it did during the Cold War. The events in Turkey's peripheries complicated the environmental and security uncertainties about its future. These uncertainties have further increased as a result of Turkey's own economic crises and political turmoil.<sup>141</sup>

Turkish foreign policy shifted at the end of the Cold War from a passive stand to active involvement. While Turkey had been the buffer state against the Soviet expansionist policies in the Middle East and the Eastern Mediterranean, it consciously eschewed efforts to cultivate contacts with the Turkic and Muslim nationalities under the USSR. However, later Turkey saw the collapse of the Soviet Union as an opportunity to increase its influence through intensified relations with the new Turkic Republics and enhance its strategic importance to the West.<sup>142</sup>

Turkey's growing policy of involvement in the Middle East was focused on internal security concerns, which were based upon two major perceptions. The PKK separatism from Northern Iraq, Syria and Iran was only one half of the equation. The other was the linkage between the Islamist line in Turkish politics, especially during Erbakan's terms, and the activities of the fundamentalists in the Middle East.<sup>143</sup> Bulent Aliriza, the Director of Turkish Studies at the Center for Strategic and International Studies (CSIS) in Washington, said in 1997 that "they were [Iranians] pouring fuel onto the internal fire in Turkey" referring the Iranian Ambassador Baqeri's call for an Islamic state during a gathering to mark the Jerusalem day in Sincan, an outskirt province of Ankara.<sup>144</sup> A reporter of Hürriyet Newspaper, Sedat Ergin said that "majority of Turks

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<sup>141</sup> F.Stephen Larrabee and Ian O.Lesser, *Turkish Foreign Policy in an Age of Uncertainty*, (RAND, National Security Research Division, 2003), p.IX.

<sup>142</sup> F.Stephen Larrabee and Ian O.Lesser, *Turkish Foreign Policy in an Age of Uncertainty*, (RAND, National Security Research Division, 2003), p.99.

<sup>143</sup> F.Stephen Larrabee and Ian O.Lesser, *Turkish Foreign Policy in an Age of Uncertainty*, (RAND, National Security Research Division, 2003), p.127-128.

<sup>144</sup> Michael S.Lelyveld, "Iran-Turkey Dispute, Fuel Odds Gas Deal Will Fizzle," *Journal of Commerce*, 10 February 1997.

were frustrated that a coalition headed by an Islamic prime minister was running the country". He also added that "the military, universities, bar associations, the mainstream press, business chambers and two major labor confederations, all engaged in this endeavor to overthrow the government. It was a 'strange' coalition from a democratic perspective" according to Ergin, referring Erbakan's ban from the politics in 1997. The same concern was expressed by the former Turkish Foreign Minister Ilter Turkmen, referring the acceptance of the military's pressure for secularism, by saying that "it [the military] was fine, because there is no other way to stop the political class from granting concessions to the fundamentalists, which is the greatest threat to Turkey".<sup>145</sup>

The Gulf War in 1990 gave a new impetus to the shift in Turkish Foreign Policy about the Middle East. Turkey adopted a very active stance as a part of the Gulf War coalition with a decision in August 1990 to shut down critical Iraqi oil pipelines. The absence of the Cold War conditions meant that Turkey would be able to pursue a more active, pro-Western policy without the concern of the Russian factor.<sup>146</sup>

The aftermath of the Gulf War proved that this coalition was costly. Turkey lost U.S.\$ 7 Billion annually according to the World Bank as pipeline fees, trade revenues coming from Iraq, in banking sector, tourism, defense expenditures as well as losses due to increase of the oil prices.<sup>147</sup> Turkey's losses due to the U.N. sanctions were never adequately compensated afterwards, while the Gulf War policy never came to fruition in political benefits with the U.S. and Europe as President Özal expected, such as some advantages in Turkey's admission to the European Commission (EC) and economic aids from the United States and Gulf countries due to the economic losses as a result of Turkey's oil and trade cuts with Iraq.<sup>148</sup> The end of the Gulf War did not only contribute to Turkey's economic problems, but also to the internal security concerns. The No-Fly-

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<sup>145</sup> John Ward Anderson, "Army Casts Shadow on Turkey's Future," *The Washington Post*, 26 January 2001, p.A7.

<sup>146</sup> See, F.Stephen Larrabee and Ian O.Lesser, *Turkish Foreign Policy in an Age of Uncertainty*, (RAND, National Security Research Division, 2003), pp.133-134. Also, Clyde Haberman, "Confrontation in the Gulf: Turkey is Toughening Ground and Air Defense," *The New York Times*, 13 January 1991, p.13.

<sup>147</sup> The Xinhua News Agency, "Turkey to Receive 230 Million Dollars in Financial Aid," 14 January 1993.

<sup>148</sup> Peter James Spielmann, "EC Commission President: East Europe Can Get \$17.5 Billion More in AID," *The Associated Press*, 24 April 1991.

Zone in the North of Iraq after the Gulf War created a power vacuum that facilitated the PKK's political violence.<sup>149</sup>

## **2. Iran**

Iranian economic incentives provided the reasons for increased commercial relations with Turkey throughout the 80s. Despite the Iranian relations with Turkey after 1990 displayed the continuity of those during the 80s, Iran went through some modifications in its foreign policy objectives that intensified its commercial efforts towards Turkey following the Iran-Iraq War and facilitated the conditions to materialize the natural gas agreement between Turkey and Iran.

Despite its frequent and continued revolutionary pronouncements, Iran has become a more pragmatic and rational actor that adopted a foreign policy based on the calculations of its national interest especially vis-à-vis Turkey. The Iranian political dual personality derives from the conflicting character of the moderate elements in Iranian domestic politics and the self-defeating statements of the Mullahs. The struggle still continues today; however, an ideological approach on the issues is less likely than a pragmatic one as it will be explained later.<sup>150</sup>

Iranian foreign policy can be understood as pragmatic, regional and realist. First, it was pragmatic, because the beginning of the 1990s brought a watershed to the Middle East as Iran viewed that period as a window of opportunities to increase its influence in neighboring countries. Iran's struggle to export Islamic principles replaced itself with two policy priorities due to two reasons: The political consolidation of the regime and economic reconstruction of the country. On the one hand, the need for the political consolidation of the regime emerged as a result of the Iranian Revolution's Supreme Leader's death, Ayatollah Khomeini. After Khomeini's death, the political establishment of the Islamic Republic moved quickly to consolidate Supreme Leader's position to ensure the political stability of the state. A smooth succession from Khomeini to Ali

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<sup>149</sup> Sabri Sayari, "Turkish Foreign Policy in the post-Cold War Era: The Challenges of Multi-regionalism," *Journal of International Affairs*, Fall 2000, Vol.54, No.1, p.171.

<sup>150</sup> See, Ray Takeyh, "Re-Imagining U.S.-Iranian Relations," *Survival*, Autumn 2002, Vol.44, No.3, Military Module, p.23. Also, David Ignatius, "Russia Wins the War," *The Washington Post*, 23 December 2001, p.B.07.

Khamenei became a concern, since Khamenei “lacked” the qualifications for the post and the charisma of Khomeini.<sup>151</sup>

On the other, the need for the economic reconstruction of the country surfaced due to Iran-Iraq War’s socioeconomic consequences and Rafsanjani’s economic goals. Following the end of the Iran-Iraq War, a vast national welfare network was created to benefit the families of the victims of the Iran-Iraq War. The main eligibility criterion became the loyalty to the regime and had to be supported by the regime to maintain the popular support of the Iranian people. Besides, Rafsanjani’s goal to achieve a network of commercial self-interest that was centered on “merchant class” defined the agenda of the Iranian governance. Both reasons required Iran to seek new economic opportunities.<sup>152</sup> The “new” economic opportunities did not emerge until 1990. The disintegration of the Soviet Union in 1990 created many new opportunities with the independence of the former Soviet Republics in Central Asia and the Caucasus. Such new neighbors in the Iranian vicinity changed the Iranian motivations to follow new policy priorities in its neighborhood rather than vague ideological principles. All given circumstances led Iran to pursue a pragmatic policy to achieve its goals.<sup>153</sup>

Second, Iranian foreign policy was a regional foreign policy in the sense that Iran gave the first priority to increase the relations with the non-Arab states in the region, especially Turkey, following the Gulf War. The relations between Iran and the Arab states in the Persian Gulf were undermined by mutual distrust. The rising status of the U.S. in the Gulf after the Gulf War and Iran’s anti-American stance had polarized Iran and GCC States (Cooperation Council of the Arab States of the Gulf - Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates).<sup>154</sup>

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<sup>151</sup> See, Ali M. Ansari, *Modern Iran Since 1921: The Pahlavis and After*, (London: Pearson Education, 2003), pp.243-244. Also, Anoushivaran Ehteshami, “Iran-Iraq Relations After Saddam,” *The Washington Quarterly*, Autumn 2003, Vol.26, No.4, p.119.

<sup>152</sup> See, Ali M. Ansari, *Modern Iran Since 1921: The Pahlavis and After*, (London: Pearson Education, 2003), pp.243-244. Also, Anoushivaran Ehteshami, “Iran-Iraq Relations After Saddam,” *The Washington Quarterly*, Autumn 2003, Vol.26, No.4, p.119.

<sup>153</sup> See, Shireen Hunter, “Iran’s Pragmatic Regional Policy,” *Journal of International Affairs*, Spring 2003, Vol.56, No.2, pp.133-134. Also, *Iran after Khomein*, (New York: Praeger, 1992), p.136.

<sup>154</sup> Jerrold D. Green, “Iran’s Foreign Policy: Between Enmity and Conciliation,” *Current History*, January 1993, Vol.92, No.570, pp.14-16.

Fearing of the isolation in the Middle East, Iran turned to non-Arab countries in the West, North and East. Iranian interest in establishing good relations with Turkey was especially important due to two basic reasons. First, Turkey had close ties with the West and Iran was willing to export its vast energy resources and increase its trade activities with Europe. Second, the Russian influence over the landlocked Central Asian states was overwhelming, leaving Iran little room for competition. Those states were struggling to become independent from Russia in political and economic issues.<sup>155</sup>

Third, Iranian foreign policy conformed to realist international relations readings of events because Iran faced security challenges in the region. In fact, Iran's security concerns started with Saddam's aggression in the region and coupled with the perception of the American support for Saddam Hussein. After the Iran-Iraq War between 1980 and 1988, Iran needed stability in the region to consolidate its regime and achieve economic development. However, Iran's perceived security concerns did not improve. The Iranian expectations for stability in the region vanished in the early 1990s as a result of four important developments: the Soviet Union disintegrated creating a vacuum in Central Asia and Caucasus. Saddam Hussein's invasion of Kuwait resulted in more American military presence in the Gulf. Following that, Saddam stayed in power after the Gulf War and continued to be a security concern for Iran. Finally, anti-Iran Taliban toppled the Afghan regime in 1992. Thus, Iran's pure national security concerns grew more in early 1990s.<sup>156</sup>

September 11<sup>th</sup> attacks on the U.S. homeland brought radical changes to the U.S. foreign policy, and Iran came under focus more than before as a result of that change. Everything came as a surprise, as the U.S. saw the unexpected fall of the Shah from power, and faced American hostage crisis in Iran. The social discontent and social events in the Middle East were not given a high priority, as it did not happen in Iran before the Islamic Revolution. Oil-based politics with the Gulf countries was abandoned, since it brought a high humanitarian cost on 9/11. Cold War's communist threat was replaced by the Islamic fundamentalism and terror turned into the major concern of the U.S. in

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<sup>155</sup> Jerrold D. Green, "Iran's Foreign Policy: Between Enmity and Conciliation," *Current History*, January 1993, Vol.92, No.570, pp.14-16.

<sup>156</sup> Shireen Hunter, "Iran's Pragmatic Regional Policy," *Journal of International Affairs*, Spring 2003, Vol.56, No.2, p.135

international arena. When terror became the major issue, Iran was one of the countries, which were held responsible for supporting terrorism. The “Axis of Evil” speech of President Bush even exacerbated the Iranian security concerns further.<sup>157</sup>

In one aspect, Iran was a winner in the post-September 11<sup>th</sup> environment. The Iranian “cooperative” efforts surfaced in two areas in afterwards of September 11<sup>th</sup>. Iranian efforts to rebuild Afghanistan and to contain Saddam Hussein made Iran an invisible ally to the United States. In Afghanistan, Iran did not oppose the overthrow of the “anti-Iranian” Taliban regime. Moreover, Iran even facilitated the advance of the Northern Alliance, the opposition group of Taliban regime, provided continuous cross-border support for opposition groups and diplomatic ties for the new Afghan government, and Iranian President Khatami quickly recognized Afghanistan’s Karzai Government following the overthrow of Taliban. In the aftermath of Taliban, the United Nations World Food Programme (WFP) appreciated the efforts of Iranian Custom Administration for facilitating the transport of goods and commodities to Afghan people via the Iranian territory.<sup>158</sup>

Regarding Iraq, Iranian navy closed the Straits of Hurmuz to the vessels that were trying to smuggle oil and other products from Iraq on the eve of American invasion of Iraq. This was a significant contribution to the U.S. efforts to contain Saddam. Iran allowed the Iraqi Shiite Cleric, Ayatollah Mohammad Al-Hakim that was exiled by Saddam Regime to Tehran, to work with the American sponsored efforts to organize the Iraqi resistance. In addition, Iran helped to destabilize Saddam Regime that would cause collapsing of the Iranian opposition group in Iraq, the Mudjahedeen al Khalq.<sup>159</sup> For all those reason, the U.S. and Iran had an overlapping interest in getting rid of the Taliban regime in Afghanistan and Saddam Hussein in Iraq. This “indirect” cooperation might,

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<sup>157</sup> Julia Nanay, “New Friends, New Enemies and Oil Politics: Causes and Consequences of the September 11,” *Middle East Policy*, December 2001, Vol.8, No.4, pp.11-14.

<sup>158</sup> BBC Monitoring International Reports, “Report Notes Syria’s Concern Over U.S.-Iranian ‘Deal’ On Iraq,” 8 November 2002, and “World Food Programme Praises Iran for Efforts to Help Afghan,” 28 January 2002.

<sup>159</sup> Michael R.Gordon and Neil MacFarquhar, “U.S. is Gaining Arabs’ Support,” *Deseret News-Salt Lake City*, 2 December 2002, p.A01.

perhaps, persuade the U.S. to recognize Iran's strategic interest in the Middle East and Central Asia. It might possibly soften the U.S. policies against Iran.<sup>160</sup>

Turkey and Iran saw a common interest in natural gas agreement in the mid 1990s with the increased security issues even though the pipeline prospects between Turkey and Iran were not new. Despite Turkey's disputes over Iranian favoritism for PKK, Hezbollah, and Islamist elements in Turkey in earlier period, energy trade offered a focal point for cooperation for both countries. Moreover, the Operation Iraqi Freedom (OIF) pushed Turkey and Iran to each other in regards to their internal stability. Before OIF in 2003, Turkey did not share the same policy objectives with the U.S. towards Iraq as Turkey's Foreign Minister, Yaşar Yakış, told CNN International that "the Turkish government asked the American side about the emergence of a Kurdish state in northern Iraq, because it was one of the very important questions."<sup>161</sup> Turkey's skepticism about "secret" U.S. plans for a Kurdish state in Iraq was the same concern that Iran worried about.<sup>162</sup> When 20 Iranian Kurdish Members of the Iranian Parliament sent open letters to the EU leaders and UN Secretary General Kofi Annan, they also expressed concern in a separate message to President Mohammad Khatami about Iran's silence for a "possible" entering of the Turkish troops into northern Iraq.<sup>163</sup>

Given the Iranian foreign policy priorities since late 1980s, Iran's current primary goal is to maximize its commercial interest in surrounding countries. Natural gas agreement is a win-win project for Turkey and Iran. However, there might be some implications that are exposed by Iran, which might affect Turkey negatively.

Despite the common interest of the Turkish-Iranian natural gas cooperation, Iran is a competitor of Turkey in economic issues in Central Asia and the Caucasus. The Turkish-Iranian gas agreement is likely to enhance Iran's strategic importance as one of the major routes for Central Asia's economic activities. If Iran can handle mobilizing

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<sup>160</sup> David Ignatius, "Russia Wins the War," *The Washington Post*, 23 December 2001, p.B.07.

<sup>161</sup> Chicago Tribune, "U.S., Turkey Close to Deal; 'Broad Agreement' on Troops Reached," 22 February 2003, p.1.

<sup>162</sup> F.Stephen Larrabee and Ian O.Lesser, *Turkish Foreign Policy in an Age of Uncertainty*, (RAND, National Security Research Division, 2003), pp.148-151.

<sup>163</sup> Agence France Presse, "Iranian Kurd MPs Voice Over Turkish Occupation of Iraqi Kurdistan," 24 February 2003.

Central Asia's economic potential, it may emerge as another big player besides Russia and China. Besides, that would reduce Turkey's role in Central Asia and the Caucasus.

Turkey signed an agreement to buy natural gas from Turkmenistan, and Iran is the transit country between Turkey and Turkmenistan. Iranian connection may pose a risk of weakening the future of the U.S. and Turkey-supported BTC pipeline. The BTC pipeline aims to provide an export route to Central Asian republics for oil and gas by avoiding Iranian and Russian territory as transit country. The U.S. argues that "the swaps [from Turkmenistan and Kazakhstan to Iran] are a mechanism that takes much-needed oil supplies away from the future of the East-West pipeline, namely BTC."<sup>164</sup> Turkey does not have much to offer to Turkic republics in Central Asia financially. Iran's economic power is even worse than that of Turkey. However, Iran has a trade and pipeline offer, which is not dependent on Iran's financial ability. That might turn to Iran's advantage.<sup>165</sup>

In addition to that, if Iran increases its significance for Central Asian Republics, it might also affect Turkey's cultural objectives in the region. During his recent visit to Uzbekistan on May 19<sup>th</sup>, 2004, one of the issues on agenda of Kamal Kharrazi, Iranian Foreign Minister, was promoting the "Persian language" in Uzbekistan and safeguarding Iran's cultural heritage in Uzbekistan.<sup>166</sup> Iran's emphasis on shared religious belief and "Islamic universalism" is a factor that might reduce Turkey's ethno-linguistic commonalities and affect those countries' integration to the West.<sup>167</sup>

### **3. Russia**

Russia went through a change in its policy towards the Central Asia and the Caucasus. The initial policy did not dictate a close attention at the Central Asian Republics. According to some Russian leaders, the economic reforms were more important than paying attention to Eurasia, because it would slow down the implementation of successful economic policies. However, in mid-1990s, Russia changed

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<sup>164</sup> Julia Nanay, "The U.S. in the Caspian: The Divergence of Political and Commercial Interest," *Middle East Policy*, October 1998, Vol.6, No.2, p.154.

<sup>165</sup> Oxford Analytica, "Turkey: Regional Ambitions," in OxResearch-Oxford, 29 November 1991, p.1.

<sup>166</sup> IRNA – Islamic Republic News Agency, "Iranian Foreign Minister, Uzbekistani President Discuss Bilateral Cooperation," IRNA-Tehran (FBIS), 19 May 2004.

<sup>167</sup> John Calabrese, "Turkey and Iran: Limits of a Stable Relationship," *British Journal of Middle Eastern Studies*, May 1998, Vol.25, No.1, p.90.

its policy based on one significant factor: Russia feared that it would lose its position in its near abroad, where it once assumed a sphere of influence. Moreover, the conflict in Chechnya turned quickly into a war, threatened Russia's interest on the oil and gas resources as well as pipelines that go through the Caspian, and raised the concern of Islamic extremism. For those basic concerns, Russian Energy Policy was concentrated on preventing foreign intrusion on the pipeline politics that would decrease the dependency of the Central Asian Republics in oil and gas exports, as explained in Chapter III.<sup>168</sup>

Russia maintains good relations with Turkey in general. There are three major reasons for Russia to maintain good relations with Turkey. All are based on the economic issues. First, Turkey is the largest trading partner with Russia in the region. Second, Turkey is a major customer for the Russian gas, purchasing nearly 20% of its gas exports. Third, Russia sells military equipment to Turkey such as armored personnel carriers and helicopters. Russia has a strong interest in maintaining good relations with Turkey due to trade ranging between US\$10-12 Billion a year, and natural gas sale to Turkey is the real incentive to promote the trade relations.<sup>169</sup>

Turkish-Iranian natural gas agreement comes into a direct conflict with the Russian interest for four different reasons, and Russia may turn towards to Central Asia and the Caspian Basin as a result of its undermined interest by Turkish-Iranian gas agreement. In Central Asia, increased cooperation between Iran and Turkey through pipelines may reduce the Russian influence over the landlocked Central Asian Turkic States such as Uzbekistan, Turkmenistan and Kazakhstan. Those former Soviet republics are dependent on Russian pipeline structure in order to export their oil and gas. However, the agreement between Iran and Turkey creates a window of opportunity for those republics, because Iran-Turkey gas pipeline offers an alternative outlet route for their oil and gas exports. Thus, it hurts Russian economic interest over Central Asia.<sup>170</sup>

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<sup>168</sup> Paul Kubicek, "Russian Energy Policy in the Caspian Basin," *World Affairs*, Spring 2004, Vol.166, No.4, pp.207-208.

<sup>169</sup> Robert O. Freedman, "The State of Russian Foreign Policy and the U.S. Policy Toward Russia; Primakov and the Middle East," *The Heritage Lectures*, 6 April 1998, No.607, p.16.

<sup>170</sup> Robert O. Freedman, "The State of Russian Foreign Policy and the U.S. Policy Toward Russia; Primakov and the Middle East," *The Heritage Lectures*, 6 April 1998, No.607, p.16.

With regards to Russia's objectives, Turkey-Iran natural gas agreement may persuade Russia to increase its influence on the Central Asian states, since Turkish-Iran natural gas pipeline creates a good alternative to the Russian pipelines for the Central Asian republics. The Central Asian republics are still of great importance for Russia due to their energy sources. First, September 11 attacks on the U.S. created an opportunity for Russia to reassert its influence on the peripheral states using the issue of war against international terrorism. Zbigniew Brzezinski, the former U.S. National Security Advisor to the Carter Administration, states that "Russia has seen its Muslim neighbors as a source of a potentially explosive political and demographic threat, and the Russian political elite was increasingly susceptible to anti-Islamic religious and racist appeals". According to him, September 11 attacks on the U.S. turned into an issue that President Putin was able to exploit in order to restore the Russian influence on the Central Asian states. Especially, the last incident in Uzbekistan in which nearly 40 people died illustrates an example how Russia exploits terror actions to restore its presence in Central Asian Republics.<sup>171</sup> In this context, Turkish-Iranian gas deal may create another concern for Russian interest, persuade Russia to attempt to increase its influence on the Central Asian countries, destabilize them as Russia did in 1993 for Turkmenistan, and in 1994 for Kazakhstan and Azerbaijan, as I shall explain later in American context. Such attempts in the future would undermine the Turkish and U.S. interest of encouraging the economic independence of the Central Asian republics.<sup>172</sup>

Second, Russia might perceive the Iranian natural gas sale to Turkey as a negative effect that would decrease Russia's gas sales to Turkish and European market. One aspect of this issue is that Russia's supremacy in Turkey's natural gas supplies faces a challenge, because Iran virtually has the capacity to replace the Russian supplies to Turkey in an event of a possible cutoff in gas supplies from Russia. Iran's capacity has a potential alternative to Russia's economic interest, since such a cutoff in the Blue Stream pipeline is not out of possibility regarding the Black Sea's sulfur rich corrosive water for pipelines. Moreover, Central Asia's natural gas sources will also be available in the

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<sup>171</sup> Judith Ingram, "Uzbek Violence Throws Spotlight on Terrorist Threat in Central Asia," *The Associated Press*, 1 April 2004.

<sup>172</sup> Zbigniew Brzezinski, *Hegemonic Quicksand*, *The National Interest*, Winter 2003/2004, Vol.74. Research Library, p.9.

future based on the signed contracts with Azerbaijan and Turkmenistan. Therefore, the gas pipeline between Turkey and Iran reduces Russia's role regarding natural gas sales.

Another aspect is that Turkey's ambition to become an energy hub in the region will eventually enable Iranian gas sales to Europe. It can also have a positive impact on Europe's energy security diversifying the gas supplies, once Iranian gas sales to Europe takes place. Both markets are vitally important to Russia's economy. Therefore, Russia is less likely to welcome the well being of the Turco-Iranian gas agreement, despite the fact that the Russian gas supplies still have an importance and the sales from Russia to Turkey are likely to continue based on Turkey's gas need for its long term goals.

Finally, the Turkey-Iran natural gas cooperation may create a leverage in favor of Turkey vis-à-vis Russia as I mentioned in Chapter III, since Russia and Iran are potential competitors as major natural gas and oil producers. Therefore, Russia would be looking for ways to balance this agreement between Turkey and Iran in the long term. Turkey's current natural gas share in Russia's natural gas exports is large enough to have a leverage reaching nearly one fifth of Russia's total gas exports. Turkey can benefit from Iranian and Russian gas in a critical situation as alternative to each other. However, a weakening in Russia's relations with Turkey may direct Russia towards the Caspian Basin and Central Asia to seek more influence. Both disturb the Turkish interest in the region.<sup>173</sup>

Any possible development regarding the Turkish-Iranian gas agreement that would severely hurt the Russian interest in oil and pipelines may direct Russia to BTC pipeline, which is Turkey's top priority among the pipeline projects. The BTC is passing Azerbaijan, which is another Turkic state with many common cultural values, and Georgia, which Turkey always considered friendlier than Armenia. In order to retaliate, Russia is much likely to choose the easiest spot in the Caucasus, Georgia.

Russia may attempt to destabilize Georgia through Abkhazia and South Ossetia regions in the north and Ajaria in the South of the country as it did in 1994, when Russia tried to prevent Georgia from signing the BTC agreement. Russia reduced the natural gas

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<sup>173</sup> F.Stephen Larrabee and Ian O.Lesser, *Turkish Foreign Policy in an Age of Uncertainty*, (RAND, National Security Research Division, 2003), p.118, 151.

transfers, cut the electricity, and backed the Abkhazia and Ajaria separatist movement to destabilize Georgia in 1994.<sup>174</sup> Those separatist provinces always held a potential to rebel against the Georgian government. With its 5.4 million populations, Georgia has many pro-Russian interest groups such as the large shareholders in energy assets that facilitate Russian efforts. The country is also witnessing the competition of two superpowers, Russia and the U.S., in this South California-size country, because of the strategic importance due to BTC pipeline that would connect Central Asia to the Caucasus and eventually to the western markets.<sup>175</sup>

#### **4. The United States**

Even though the issues related to the United States are covered in this chapter under “difficulties of Turkey’s Iranian natural gas deal”; the United States neither displayed an overwhelming opposition to the Turkish-Iranian natural gas cooperation, nor an alignment with it in the aftermath of the agreement signing. However, the Turkish-Iranian natural gas cooperation created some consequences that help U.S. policies in the region. The U.S. faced a dilemma regarding the Turco-Iranian energy relationship in the light of its interests. There were two major reasons for the U.S. to acquiesce to the Turkish-Iranian gas cooperation. First, the United States has an interest in Turkey’s stability and development that helped justify the Turkish-Iranian natural gas agreement. Turkey is not only receiving a substantial amount of natural gas for its industrial development through this deal, but also will receive significant transit fees once the natural gas sales to Europe starts. Moreover, Turkey is the best model for the U.S. to show that Islam and democracy are compatible with each other. Therefore, it is in the U.S. interest to tolerate the Turkey’s gas deal with Iran.

The U.S. opposes Iranian involvement in energy projects in the region, based on a concern that “the deals would provide Iran revenues to support terrorism”, a charge that

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<sup>174</sup> TurkishNewsLine.com, *Main Characters of Petropolicy: Russia’s and U.S.’ Oil Policies in the Central Asia and Caucasus*, 19 April 2004.  
<http://www.turkishnewslines.com/detayprnt.php?id=174&s=detay>. Accessed 12 April 2004.

<sup>175</sup> See, Lutz Kleveman, “What Georgia Taught Us,” in *Slate Magazine*, 3 December 2003. Also, Dave Montgomery, “Georgians Apprehensive in Shadow of Chechen War,” *The Dallas Morning News*, 6 February 2000, p.37A.

Tehran repeatedly denied.<sup>176</sup> In the broader sense, the U.S. follows a containment strategy over Iran due to Iran's support of international terrorism, its opposition to the Arab Israeli Peace Process, and its efforts to develop weapons of mass destruction. However, the U.S. tolerated the gas deal between Turkey and Iran because of the priorities of keeping Turkey politically and economically stable.<sup>177</sup>

Second, the United States has an interest in strengthening the economic and political independence of the Former Soviet Union republics in Central Asia and the Caucasus. Those Central Asian states are dependent on the pipelines that go through the Russian territory for their oil and gas exports to world markets. Iran's proximity to Central Asia facilitates the U.S. objectives to reduce dependency on the Russian route since Iran offers an outlet route to Persian Gulf for those republics to conduct their commercial activities. The Iranian route is the only existing alternative route to the Russian pipelines. Before September 11<sup>th</sup>, Zbigniew Brzezinski, National Security Advisor to President Carter, argued that a "good strategic relationship with Iran was important in the long run, if the U.S. wanted not only stability in the Persian Gulf, but also access to Central Asia."<sup>178</sup> In the aftermath of September 11<sup>th</sup>, the importance of Iran's geographic location increased dramatically due to the Taliban in Afghanistan and the War in Iraq.

Geographically, "Iran sits at the heart of a region that has long been important to U.S. security concerns" according to Senator Joe Biden. If Iran evolves in a more democratic direction and the relations between the U.S. and Iran improve as a result of this change, then the security concerns of the United States are much likely to improve. The struggle between the conservative and moderate elements in Iranian politics is still going on today. However at this moment, "the United States is not in a position to have a major impact on this struggle. Nor should we [the U.S.] intervene in any direct way" as Senator Biden argued in his address to the Iranian-American Council referring to the strained relations between the Iranians and the U.S. that have been in existence ever since

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<sup>176</sup> Michael S. Lelyveld, "Sanctions Showdown Feared As Iran, Elf Near Deal On Gas Field," *Journal of Commerce*, 19 December 1996, p.1A.

<sup>177</sup> Shireen Hunter, "First, Open the Door with Dialogue; Iran: Khatami's Overture Is An Opportunity," *The Los Angeles Times*, 16 January 1998, p.9.

<sup>178</sup> MEED Quarterly Report – Iran, "Political Outlook," September 1996, p.3.

the CIA's intervention during 1953 coup. The 1953-coup raised suspicions among the Iranians against the U.S. after restoring the Shah's power, and such suspicions lingered ever since. Therefore currently, the U.S. has a limited option in benefiting from the Iranian people to persuade Iran to a moderate line, and thus the economic sanctions are the only viable option.<sup>179</sup>

The United States policy regarding the natural gas agreement between Turkey and Iran is largely related to a security concern rather than an economic one. The U.S.-Iranian relations have been constrained by the Islamic Revolution's uncompromising attitude and the 1979 American hostage crisis. Since then, the U.S. has tried to limit Iran's political and economic progress on the basis that it provided support for international terrorism. Moreover, Russian nuclear technology sales to Iran raised the weapons of mass destruction concerns and intensified the U.S. efforts to limit Iran further. In August 1996, the U.S. signed the Iran-Libya Sanctions Act (ILSA) that prevented U.S. companies from investing more than \$40 million in Iran's energy sector, and imposed unilateral sanctions on foreign companies that invested the same amount.<sup>180</sup> The U.S. opposes any energy delivery project that includes Iran in order to stop the flow of money to this country. Iran's uncompromising stance in the Middle East Peace Process and security issues in the region are at the core of the U.S. concern.<sup>181</sup>

The initial reaction of the Clinton administration to the Turkish-Iranian gas initiatives was "disapproving." The then U.S. Secretary of State, Warren Christopher, stated that the gas agreement between Iran and Turkey was not "good business." However, the U.S. did not put pressure on Turkey in an attempt to persuade Turkey to give up the Iranian natural gas deal for reasons explained earlier. Some key political reasons also played a role in U.S. acquiescence. First, the U.S. sanctions on Iran did not "conform" to the economic and political realities. The ILSA, as a U.S. unilateral action,

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<sup>179</sup> See, MEED Quarterly Report – Iran, "Prospects for Progress: America and Iran after 9-11" by Senator Joe Biden to The Iranian-American Council, 13 March 2002, p.33. Also, Edmund Herzig, "Iran and Central Asia," *Central Asian Security: The New International Context* Ed. Lena Jonson and Roy Allison, (London: Royal Institute of International Affairs 2001 and Washington D.C.: Brookings Institution Press, 2001), p.191.

<sup>180</sup> Carolyn Miles, "The Caspian Pipeline Debate Continues: Why Not Iran?," *Journal of International Affairs*, Fall 1999, Vol.53, No.1, pp.334-335.

<sup>181</sup> Mohammed Zahirul Haque, "U.S. Sanctions against Iran and Libya," *Economic Review*, August 1996, Vol.27, No.8, p.5.

did not receive a positive response from European allies of the United States. France, Germany and the E.U. denounced the U.S. action, and clearly expressed that they would not yield to the U.S. demands to cut the economic enterprises in Iran. For instance, the U.S. yielded, when the French Oil Company, Total, replaced the American oil company, Conoco. Moreover, the U.S. did not oppose Turkey's gas deal with Iraq during Saddam's reign long before the Turkish-Iranian natural gas deal, despite the fact that Saddam was the worst enemy of the United States.<sup>182</sup>

Second, Turkish officials argued that the natural gas pipelines did not involve any Turkish investment in the Iranian petrochemical industry, since Iran was responsible for building the part of the pipeline in Iranian territory on its own. Technically, this argument was right in the line with the ILSA's purpose of preventing foreign investments from being involved in Iran's oil and gas industry.<sup>183</sup>

Third, Turkey appeased the U.S. by making a gas deal with Turkmenistan. Even though Iran was the transit country, Turkey argued that the transit fees would not contribute to the Iranian economy. Besides, Iran-Turkey pipelines would provide Turkmenistan a strong alternative to the Russian pipeline and would make Turkmenistan less dependent on Russian export lines, which was one of the U.S. objectives in Central Asia.<sup>184</sup>

Fourth, the U.S. wanted to keep its ties strong with Turkey's pro-Islamic coalition government at the time the deal was signed. As a NATO member and a major ally, the U.S. feared that the energy sector and investments in Turkey would be tied to Iran in the mid-1990s by the Refah Party, an inexperienced Islamist party leading the government. Thus, the natural gas initial agreement was signed between Turkey and Iran on August 8<sup>th</sup>, 1996 despite the American concerns.<sup>185</sup>

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<sup>182</sup> Mohammed Zahirul Haque, "U.S. Sanctions against Iran and Libya, Economic Review," August 1996, Vol.27, No.8, p.5.

<sup>183</sup> MEED Quarterly Report- Iran, "Political Outlook," September 1996, p.3.

<sup>184</sup> George Ives. Jr, "U.S. Opposition; 1996 Natural Gas Agreement between Turkey and Iran," *Pipe Line & Gas Industry*, 1 June 1999, No.6, Vol.82, p.7.

<sup>185</sup> The Los Angeles Times, "Right Line on the Pipeline: Administration is Correct Not to Oppose Gas Project in Iran," 29 July 1997, p.6.

While signing the natural gas agreement with Iran, Turkey was carefully watching its relations with the United States, because Turkey's goal to become integrated with the West always favored the preservation of good Turkish-American relations. Nonetheless, in order to revive its economy, Turkey had to increase its cooperation with its neighbors, which the U.S. recognized. Therefore, Turkey's economic and political interest prevailed vis-à-vis other factors.<sup>186</sup>

## **5. Why is Central Asia Important for the United States?**

The U.S. considerations regarding Turkey were the first half of the equation for tolerating the Turkish-Iranian gas pipeline agreement. The second part of the equation was related to the U.S. interest in the Former Soviet Republics in Central Asia and the Caucasus. In order to understand the compromising U.S. stance vis-à-vis Turkey's gas cooperation with Iran, two reasons that show Central Asia's importance must be understood clearly.

The first reason is the Central Asia's Muslim demographic structure that gained importance due to changes in the U.S. foreign policy. The U.S. experienced a surprise in its relations with the Muslim world in the Persian Gulf. The emphasis of the U.S. policy in the Middle East had been oil oriented with little attention to social and demographic structure until September 11<sup>th</sup>, 2001. Consisted of 15 Saudi, 2 UAE nationals, 1 Egyptian and 1 Lebanese, 19 hijackers in total shook the confidence of the U.S. towards their oil allies in the Gulf on that fateful day. In the aftermath of 9/11, the future direction of U.S.-Gulf countries relations, especially with Saudi Arabia, was thrown into question, becoming more fragile and more central because of heightened U.S. national security concerns. As O. Faruk Logoğlu, the Turkish Ambassador to the United States, said in a seminar at RAND, "September 11 alerted us to many different problems as well as possibilities". Consequently, the U.S. ended up with a change in its strategy that was solely based on oil. The need to understand the culture and cultural dynamics in the Middle East became a strong focus of the U.S. foreign policy.<sup>187</sup>

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<sup>186</sup> Shireen Hunter, "Iran's Pragmatic Regional Policy," *Journal of International Affairs*, Spring 2003, Vol.56, No.2, pp.144-145.

<sup>187</sup> See, Julia Nanay, "New Friends, New Enemies and Oil Politics: Causes and Consequences of the September 11 Terrorist Attacks," *Middle East Policy*, December 2001, Vol.8, No.4, pp.11-14. Also, RAND News, "Turkish Ambassador Cites Common Goals," April 2002.

<http://www.rand.org/publications/randreview/issues/rr.04.02/news.html#turkish>. Accessed 21 May 2004.

Despite the long-term tradition of an oil relationship between the U.S. and Gulf countries since the beginning of the Cold War, the absence of depth in bilateral relations was proven when the U.S. national security concerns grew on September 11<sup>th</sup>. Despite the long term relations between the U.S. and Gulf countries, the focus was only the oil. The attacks on September 11<sup>th</sup> increased the need for addressing the issue of “fundamentalism” in social issues in the Middle East and search for alternative energy sources for the U.S. and global energy security, while the U.S. maintained the relations with the Gulf supplies.<sup>188</sup>

Why did Central Asia become so important to the U.S. regarding its national security concerns? The Muslim states in Eurasia currently have a population of 295 million, and are likely to grow to more than 450 million by 2025 due to high birth rates. Because Central Asia will have a large young population in the future, they will be determinants of the political and economic order and disorder. Islam had not emerged as a powerful factor in the politics in Central Asia yet. Central Asia’s Muslims that practice the Sufi school of Islam have a more moderate attitude compared to the Muslims, who practice the Wahhabi school of Islam that is stricter in Islamic interpretations than the Sufi school, in the Middle East. However, Central Asian politics still holds the potential to emerge as “extremist,” if the social and economic integration of the republics cannot be succeeded. Therefore, the success of absorbing those people into an economic and social system is the central focus for global stability, since they are connecting two significant areas, the Western World to the Far East.<sup>189</sup>

Central Asia is also close to the hotbed of “Islamic fundamentalists” in Afghanistan with whom the U.S. is currently fighting. The southeastern rim of Eurasia has the potential for some of the most dangerous ethnic and religious interstate wars. There are extremist groups that seek weapons of mass destruction. The policies there are a source for fanatical, fundamentalist militancy to which some states might share their

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<sup>188</sup> Julia Nanay, “New Friends, New Enemies and Oil Politics: Causes and Consequences of the September 11 Terrorist Attacks,” *Middle East Policy*, December 2001, Vol.8, No.4, pp.11-14.

<sup>189</sup> For more on the moderate view of the Muslims in the Central Asian Turkic states, see Zbigniew Brzezinski, “The Dilemmas of the New Global Disorder,” *The Choice: Global Domination or Global Leadership*, (New York: Basic Books, 2004), pp.49-50. Also, Graham E.Fuller, “The Impact of Central Asia On the ‘New Middle East’,” *Central Asia Meets the Middle East* Ed. David Menashri, (London, UK and Portland, OR: Frank Cass Publishers, 1998), pp.220-223.

weapons. In addition, the area contains three quarters of the world's poor population, and it poses a potential threat for instability.<sup>190</sup> Contrary to Afghanistan's Taliban-like extremists, the Sufi tradition of Islam has been dominant among the Muslims in Central Asia's Turkic Republics. Even though it might be capable of injecting great religious influence into the politics, the Sufi tradition in Central Asia is still less militant than the one in Afghanistan and the Middle East. There are three reasons that might explain it: first, the Turkic republics in Central Asia lived under the Soviet Union for a long time and still have a "socialist" approach towards the religious issues. Second, Turkey, which defends the separation of the state and the mosque, is the successful secular Muslim state example for those republics. Third, the history of the Central Asian states is relatively short, since they became independent after 1990. Therefore, they have not experienced much interaction with social and religious issue in the region and in the Muslim world. Thus, the people in those republics still did experience many incidents to have resentment against the West. Therefore, securing the moderate approach of the Central Asia's Muslim population has crucial implications for the global security as well as the security of the United States.<sup>191</sup>

The second reason concerns the vast oil and gas reserves that make Central Asia important for the rest of the world. The Cold War proved how important the oil and gas reserves in the Middle East were. The experiences of the oil crisis in 1973, the Iranian Revolution in 1979 and Saddam's invasion of Kuwait in 1990 showed clearly that the energy security of the whole world was vulnerable. Therefore, securing and diversifying the energy supplies became an important concern. Following the collapse of the Soviet Union, Central Asia's Newly Independent States (NIS) gained importance due to their vast amounts of oil and gas reserves. According to the Energy Information

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<sup>190</sup> Zbigniew Brzezinski, "The Dilemmas of the New Global Disorder," *The Choice: Global Domination or Global Leadership*, (New York: Basic Books, 2004), p.40.

<sup>191</sup> See, Zbigniew Brzezinski, "The Dilemmas of the New Global Disorder," *The Choice: Global Domination or Global Leadership*, (New York: Basic Books, 2004), pp.49-50. Also, Graham E.Fuller, "The Impact of Central Asia On the 'New Middle East'," *Central Asia Meets the Middle East* Ed. David Menashri, (London, UK and Portland, OR: Frank Cass Publishers, 1998), pp.220-223.

Administration's (EIA) data, the region possesses 26 percent of the world's proven oil, and 12 percent of the natural gas reserves.<sup>192</sup>

In addition to that, the United States has commercial interests in the region. Among the Central Asian states, Kazakhstan constitutes the economic interest of the U.S. in the north of the region, since a U.S. company, Chevron, was the first oil company to have signed a contract in the region's most resource-rich country. Kazakhstan's proven gas reserves alone are more than those of Norway, Europe's largest gas reserve owner. Even though the current reserves fall behind those of Norway, the estimated reserves are two-three times of those of Norway. Besides, unlike Azerbaijan, Kazakh oil and gas production is onshore, and that reduces the risk of a fight over its resources in the Caspian dramatically. It also reduces the cost of petrochemical production.<sup>193</sup>

#### **6. The U.S. Policy Objectives in Central Asia and the Caspian**

Given the reasons for the region's importance, Stephen Sestanovich, the U.S. Ambassador at Large for the New Independent States, summarizes the U.S. policy in Central Asia and the Caspian as follows: first, strengthening modern political and economic institutions, and encouraging the independent and prosperous Central Asian and Caspian states; second, conflict resolution to avoid fighting for natural resources; third, energy development and enhancing global energy security; fourth, security cooperation and fostering linkages among countries.<sup>194</sup>

The United States opposes any domination of a single state over the others in the region in regards to natural sources. Russia, China and Iran are the major countries causing concern for U.S. policy. The region is so crucial for the global domination that the U.S. cannot give up for the sake of global stability and security, since the region is in

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<sup>192</sup> TurkishNewsLine.com, "Main Characters of Petropolity: Russia's and U.S.' Oil Policies in the Central Asia and Caucasus," 19 April 2004.  
<http://www.turkishnewslines.com/detayprnt.php?id=174&s=detay>. Accessed 12 April 2004.

<sup>193</sup> Julia Nanay, "The U.S. in the Caspian: The Divergence of Political and Commercial Interest," *Middle East Policy*, October 1998, Vol.6, No.2, pp.150-151.

<sup>194</sup> See, Testimony by Stephen Sestanovich, "The US Policy Toward the Caucasus and Central Asia," Federal Document Clearing House Congressional Testimony, 30 April 1998. Also, David L.Goldwyn, Martha Brill Olcott, Julia Nanay and Thomas R.Stauffer, "The Caspian Region and the New Great Powers," *Middle East Policy*, October 2000, Vol.7, No.4, p.1.

the middle of the Western World and the Far East, both of which are two of the world's most developed regions.<sup>195</sup>

In order to achieve the political and economic independence of the New Independent States (NIS), the U.S. supports the pipeline projects that do not pass through either Russian or Iranian territory. The pipelines have key roles to play to achieve economic and political development, since they can provide oil and gas revenues to the region. In addition to that, the U.S. seeks various means to limit a "possible" Russian and Chinese domination in the region by implementing investments through the U.S. companies.<sup>196</sup>

Russia is the main threat to the political and economic independence of the NIS. It dictates to the Central Asian and Caucasus Republics to export their oil and gas through Russian pipelines and uses them as a card against the Former Soviet Republics. Russia also seeks to create debts for those republics, so that it can receive the debt as shares in petrochemical refining and processing facilities as payment. If not, Russia tries to minimize the alternative lines. Moreover, Russia attempts to destabilize the countries politically, if the countries resist further.<sup>197</sup>

There are several examples for Russian efforts to influence Central Asian and Caspian republics. First, Russia undermined Turkmenistan's stability by cutting Turkmen gas deliveries to Europe in 1993, when Turkmenistan sought alternative pipelines for their exports. Second, Russia cut the deliveries of Kazakh oil completely in 1994, when Kazakhstan hesitated on the proposal of delivering the oil from Tengiz fields only through Novorossiysk. The country came to the brink of civil war due to this economic crisis. Third, Russia tried to prevent Azerbaijan from signing the BTC pipeline proposal at the end of 1994. When Elçibey resisted, Russia cut the oil transfer to Novorossiysk from Azerbaijan. When the cuts did not work, Russia supported armed rebellions among

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<sup>195</sup> Zbigniew Brzezinski, "The Dilemmas of the New Global Disorder," *The Choice: Global Domination or Global Leadership*, (New York: Basic Books, 2004), p.40.

<sup>196</sup> TurkishNewsLine.com, "Main Characters of Petropolicy: Russia's and U.S.' Oil Policies in the Central Asia and Caucasus," 19 April 2004.  
<http://www.turkishnewslines.com/detayprnt.php?id=174&s=detay>. Accessed 12 April 2004.

<sup>197</sup> S.Frederick Star, "Power Failure: American Policy in the Caspian," *The National Interest*, Spring 1997.

the local leaders attempting to plot a coup against the government. Though Elçibey was unseated from the government, the BTC proposal was signed by Aliyev.<sup>198</sup> Therefore, pipelines that bypass Russia and Iran are the major purpose of the U.S. policy. This goal was embodied with the signing of the BTC pipeline agreement, which is planned to be finished in 2005.

**7. How Does the Turkish-Iranian Natural Gas Agreement Serve the U.S. Interest?**

**(a) In Turkey**

Given all the obstacles to the U.S. interests in Central Asia and Caucasus, the Turkish-Iranian natural gas pipeline has two important consequences that serve the U.S. strategic interest, such as Turkey's development and Turkish efforts in helping the Turkic republics in Central Asia. First, the U.S. has an immense interest in a politically and economically stable and stronger Turkey. Regarding the continuing Turkish-American alliance forged at the beginning of the Cold War, Turkey is the best example in the Muslim world today that the United States can promote as a successful achievement model of a secular Muslim and democratic country. Benefiting economically from the natural gas agreement with Iran and improving its economy, Turkey demonstrates a clear example of a modern, secular and successful state not only for the Iranian people, which undermines the fundamentalist ideological inspirations, but also for the New Independent States in Central Asia and the Caucasus. For Iran, It is possible that the Iranian people might receive the U.S. messages to promote democracy and liberty with suspicion. However, Turkey has a greater chance to interact with the Iranian regime and people to promote those values implicitly, since the two countries represent similar values and had similar tendencies in the past, as explained in Chapter II. In addition to Iran, the Turkic republics in Central Asia are also the important to promote the moderate views for flourishing of the modern political institutions as the U.S. aims.

Second, Turkey engaged in cultural activities in Central Asia. Turkish investments in telecommunications and the promotion of Latinization of the alphabet in Central Asia had extensive cultural effects and facilitated the integration of the region to the Western World. In addition, Turkey accepted thousands of students for high

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<sup>198</sup> S.Frederick Star, "Power Failure: American Policy in the Caspian," *The National Interest*, Spring 1997.

education from those republics, and provided education for their army officers at Turkish institutions to encourage the independence of the Central Asian and Caspian states. The Turkish-Iranian gas pipeline connects Turkey to Turkmenistan. While increasing its significance for Turkmen gas exports as a consumer<sup>199</sup> and a transit route to the West through Iranian pipelines, Turkey might be able to maximize its cultural influence in Central Asia, which would limit the Iranian and Russian influence, also a U.S. goal in terms of containing fundamentalism and promoting moderation. Turkmen gas sales might promote Turkey as the most viable outlet for Kazakhstan, Uzbekistan and Kyrgyzstan. This would be especially important in order to facilitate the independence and prosperity of the Central Asian republics.

**(b) *In Iran***

The natural gas agreement between Turkey and Iran serves to the U.S. interest regarding Iran too. Iran is an important player in calculations related to the Central Asian republics, since Iran's geographic location is important for those states. From Iran centric perspective, there are two significant benefits for the U.S. goals in Central Asia: first, the tolerant attitude of the U.S. towards the Turkish-Iranian gas agreement might help reduce the anti-U.S. sentiments and resentment of Iran towards the United States. Iran might assist U.S. goals, since Iranian and American goals overlap on seeing the Central Asian states prosperous and independent from the Russian and Chinese influence.

Second, increased interdependence between Turkey and Iran through the gas deal is likely to undermine the arbitrary ideological statements of the Mullahs that could alienate Turkey and other neighbors in Central Asia. Iran has a strong interest in maintaining good relations with Turkey regarding the natural gas agreement and trade activities. Therefore, the gas deal can function as an ideological restraint on conservative elements in Iran, because Iran has an economic interest in maintaining the transit status between Turkey and Central Asia. Iranian conservatives may use the anti-moderate rhetoric against the US, but not Turkey, since Iran has a substantial interest in the gas pipeline with Turkey.

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<sup>199</sup> The Turkmen natural gas purchases are planned to start in 2005, and the agreement covers a duration of 30 years.

(c) *In Central Asia and the Caspian*

In Central Asia's Former Soviet Republics, the Turkish-Iranian gas agreement serves the U.S. tremendously for four reasons, such as encouraging their political and economic independence from Russia, affecting the Iran-Russia de facto alliance, increasing Iran's interest in Central Asia that overlaps with that of the U.S., and creating inter-linkages among countries for security and cooperation.

First, the Turkish-Iranian pipeline helps the political and economic independence of the Central Asian republics by offering an alternative route to the Russian pipelines. Despite the critiques, which suggest that Iran would benefit from the Turkish-Iranian gas pipeline's transit revenues regarding oil and gas exports from Central Asia, the transfer tariffs are not enough to revive the Iran's economy. However, "the benefits to the long-term security of Kazakhstan, Turkmenistan and the rest of the region would be incalculable" according to regional specialist S. Frederick Star.<sup>200</sup> Turkmenistan started gas trade with Iran and will start gas sales to Turkey via Iran in 2005, which helps its economy. Thus, Turkmenistan will be able to relieve itself from the dependence on the Russian pipelines in its exports, and also eventually Kazakhstan. The cooperation between Iran and Central Asian Republics in oil and gas sales offers them leverage to exploit their natural resources and to maintain the balance among their powerful neighbors, such as Russia and China. Therefore, Iranian outlet through Turkish-Iranian pipeline is essential for the survival of those republics as well as regional tranquility.

Second, the Iranian route, offered by the Turkey-Iran gas pipeline, can complicate the de facto Russian-Iranian alliance, because it makes Iran a rival vis-à-vis Russia in Central Asia. In that sense, Iran is helping the U.S. objectives in order to balance the Russian influence and help the economic independence of the republics in the region. If the U.S. fails to achieve economic development in the region, the NIS would be bound to cooperate with Russia without Iranian option. It would especially undermine the energy development in Central Asia, raise tensions due to Russian influence over

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<sup>200</sup> S. Frederick Star, "Power Failure: American Policy in the Caspian," *The National Interest*, Spring 1997.

resources, and undermine the inter-linkages among Central Asian states to form a security body.<sup>201</sup>

Third, Iran favors security building and conflict resolution in the region, both of which are strategic U.S. interests, and therefore, Iran's constructive efforts in Central Asia makes Iran a "natural" U.S. ally. Iran actively supported the anti-Taliban forces in northern Afghanistan and settlement through '6+2' group (the six neighboring states – Iran, Pakistan, China, Tajikistan, Uzbekistan and Turkmenistan – plus Russia and the U.S.).<sup>202</sup> During internal conflicts in Tajikistan in 1996, Iran held peace talks in the beginning of 1997 between the Tajik government and opposition groups to establish order.<sup>203</sup> Iran is one of those countries, which signed a regional cooperation accord to fight against narcotics trade from Afghanistan.<sup>204</sup> Finally, when Iranian Foreign Minister, Kamal Kharrazi, visited Uzbekistan on May 19<sup>th</sup>, 2004, he stressed that "Iran's foreign policy was based on the establishment of peace and stability in the region, and cooperation among regional states, which was acceptable to all."<sup>205</sup> Overall, Iran is helping increase the cooperation for security efforts in the region.

Finally, the Turkish-Iranian gas deal helps create inter-linkages among the regional countries. In the same month as the signing of the natural gas agreement between Turkey and Iran, Kazakhstan and even Tajikistan, despite their ideological differences with Iran, were urged to increase their trade activities in the "re-activated" Economic Cooperation Organization, which aims to create a free-trade zone in the region.<sup>206</sup> Economic linkages among all countries including Iran would not only help

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<sup>201</sup> David L.Goldwyn, Martha Brill Olcott, Julia Nanay and Thomas R.Stauffer, "The Caspian Region and the New Great Powers," *Middle East Policy*, October 2000, Vol.7, No.4, p.10.

<sup>202</sup> Edmund Herzig, "Iran and Central Asia," *Central Asian Security: The New International Context* Ed. Lena Jonson and Roy Allison, (London: Royal Institute of International Affairs 2001 and Washington D.C.: Brookings Institution Press, 2001), p.190.

<sup>203</sup> M.Visi, "Iran, Russia Seen As Columns Of Peace in Tajikistan," in *Salam-Tehran* (FBIS), 6 January 1997.

<sup>204</sup> BBC Monitoring, "Afghanistan Briefing 1-4 April 04," in FBIS, 4 April 2004.

<sup>205</sup> IRNA – Islamic Republic News Agency, "Iranian Foreign Minister, Uzbekistani President Discuss Bilateral Cooperation," IRNA-Tehran (FBIS), 19 May 2004.

<sup>206</sup> S. Frederick Star, "Power Failure: American Policy in the Caspian," *The National Interest*, Spring 1997.

economic development of Central Asia, but also increase the need for security for neighboring countries.

## **8. Policy Recommendations for Turkey**

Even though the natural gas deal with Iran has a lot to offer Turkey politically and economically, the main focus of the Turkish Foreign Policy has been good relations with the United States and the European Union. A compromise between Turkey and the United States is crucial to maintain the strategic interests of both parties with each other. Therefore, while increasing the economic and social interaction with Iran, Turkey has to keep in mind that the political objectives of increased relations must serve Iran's, Turkey's and the United States' interest to maximize the benefits among all. In this sense, Turkey's natural gas agreement with Iran is a unique opportunity to attract Iran to openness. If Turkey can create interdependency between Iran and Turkey through economic links, such as natural gas cooperation and increased trade, such relations between the two countries can serve the interests of others in the region in terms of security concerns.

Iran is important for the U.S. objectives regarding the welfare of the Central Asian Republics. Therefore, the interaction with Iran must increase to guarantee the success in Central Asia. The Central Asian countries have high expectations from the U.S. about receiving a large sum of funds or revenues by creating new opportunities for their oil and gas exports. However, Iran is standing in their "immediate" neighborhood unlike Turkey and the United States as it is at the nexus of Central Asia and outlet ports for the landlocked republics of Central Asia. Consequently, Iran is indispensable for securing the success of the Central Asian republics on political, economic and social level. Turkey can promote the Turkish-Iranian natural gas agreement as a significant step for Iran's increased interaction with the West and possibly with the United States, and secure the success of the policies in favor of development of the Central Asian republics.

Turkey should pursue policies in order to create a mechanism for economic cooperation among regional countries by using its economic linkage with Iran through the natural gas agreement. The natural gas agreement between two countries has the potential to "resurrect" the historical Silk Road, which would serve the development of the Central Asian countries. The inefficiency of the poor railroads and underdeveloped

highways are the major barriers for the trade from Central Asia and Iran to Europe. Therefore, the gas deal between Turkey and Iran is a good opportunity to start a large scale cooperation to revive the trade among countries in the region.<sup>207</sup>

The U.S. hegemony in Central Asia is also indispensable for global control, as Brzezinski stated, regarding the Russian and the Chinese presence in the region.<sup>208</sup> However, it is impossible to limit the Russian and Chinese influence without getting help from a regional country. When looking at the region, Russia and China are nearly impossible to isolate from the area. For that reason, balancing Russia and China emerges as the best alternative strategy to diminish the Russian and Chinese influence on the NIS. Iran is the only alternative that could help the U.S. balance Russia and China due to Iran's proximity to Central Asia. If Turkey and Iran can reach a common understanding of the issues in Central Asia regarding the promotion of peace, political and economic stability, security and cooperation, then Russia is likely to lose its strategic ally, Iran.<sup>209</sup> In order to do that, the natural gas agreement between Iran and Turkey is the best asset to establish links between the U.S., Turkey and Iran to benefit from Iran's geographic advantage vis-à-vis Russia and China.

Turkey is the only country where the interests of other three countries-the U.S., Russia and Iran- intersect. Therefore, Turkey is the key to reach a conclusion for security building initiatives in the Caspian and Central Asia. Turkey's natural gas agreement with Iran may complicate two de facto U.S.-Turkey and Russia-Iran alliances in the region and lead all of them to regional security initiatives, since all have crisscrossing interests on each others. Turkey and the U.S. are long term allies, the U.S. does not have diplomatic relations with Iran, yet Turkey and Iran have interest to have cooperation with each other. Iran turned to Russia in the past due to U.S. diplomatic pressures and economic sanctions, but the Turkish-Iranian gas agreement is not in Russia's interest, since Russia

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<sup>207</sup> Ertan Efeğil and Leonard A.Stone, "Iran and Turkey in Central Asia: Opportunities for Rapprochement in the Post-Cold War Era," *Journal of International Studies*, Spring 2003, Vol.20, No.1, p.63.

<sup>208</sup> Zbigniew Brzezinski, "The Dilemmas of the New Global Disorder," *The Choice: Global Domination or Global Leadership*, (New York: Basic Books, 2004), p.40.

<sup>209</sup> Ertan Efeğil and Leonard A.Stone, "Iran and Turkey in Central Asia: Opportunities for Rapprochement in the Post-Cold War Era," *Journal of International Studies*, Spring 2003, Vol.20, No.1, p.64.

has a large share in Turkey's natural gas imports. Thus, the agreement affects the interests of each country in a different way. Turkey and Russia signed "Eurasia Action Plan" in 2001, emphasizing the importance of the Turkish-Russian energy cooperation. The plan clearly indicated that the energy issue was the driving force behind the cooperation efforts. Therefore, Turkish-Iranian natural gas cooperation can further be used to increase inter-linkages between Russia, Turkey, Iran and the United States for security building in the Caucasus and Central Asia.<sup>210</sup>

In order to make the Turkish-Iranian gas pipeline deliver prosperity and stability, Turkey should refrain from openly promoting the natural gas agreement with Iran as a means to challenge Russia. Russian dominance over Central Asian Republics still exists due to some very important factors; such as pro-Russian leaders and pro-Russian interest groups in the energy sector. Iran's acting in Central Asia and the Caspian "responsibly" in the past was one of the reasons why Russia continued supplying modern weapons to Iran.<sup>211</sup> Because Iran and Turkey lack the resources and political leverage to assist those republics in the short term, Russia is inevitable to sustain its influence over them. Therefore, Turkey must be careful not to pose a challenge to Russia to cause its isolation through the Turkish-Iranian natural gas agreement. If Turkey –and the U.S. - tries to isolate Russia from Kazakhstan, Turkmenistan, Azerbaijan, then Russia is much likely to use its leverage on the Former Soviet Republics to force them to increase their cooperation with Russia.

Increasing political and economic relations with Iran through the natural gas agreement, Turkey should encourage efforts with Iran to solve the disputes about Nagorno-Karabakh between Armenia and Azerbaijan. Turkey and Iran have leverage over Armenia and Azerbaijan. Iran sided with Armenia and Turkey with Azerbaijan after the collapse of the Soviet Union, when the disputes emerged between Armenia and Azerbaijan. Those four countries had crisscrossing visits to each other on state level in the past. Armenia had relatively better relations with Iran than Turkey, whereas

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<sup>210</sup> Şaban Kardaş, "The Strategic Importance of Turkey After September 11: Part 1," *Turkish Daily News*, 24 May 2002. [http://www.turkishdailynews.com/old\\_editions/05\\_24\\_02/feature.htm#f1](http://www.turkishdailynews.com/old_editions/05_24_02/feature.htm#f1). Accessed 21 May 2004.

<sup>211</sup> Robert O. Freedman, "The State of the Russian Foreign Policy and U.S. Policy Toward Russia; Primakov and the Middle East," *The Heritage Lectures*, 6 April 1998, p.16.

Azerbaijan had warm relations with Turkey vis-à-vis Iran. Therefore, the natural gas agreement between Turkey and Iran has the potential to persuade Armenia and Azerbaijan to solve the disputes through peaceful means and increase the stability and avoid armed conflicts, which is also one of the U.S. objectives in Central Asia and the Caspian.<sup>212</sup>

Finally, consolidating the access of the Former Soviet Union Republics to the Euro-Atlantic security cooperation schemes might be useful in persuading Iran and Russia to participate in a new security initiative. Iran and Russia are less likely to stay outside of a large scale attempt, since both try to increase their influence in Central Asia. Turkey can play the major role in persuading Iran to have increased relations with the U.S. in such an initiative due to increased interdependency resulted from the Turkish-Iranian gas agreement.<sup>213</sup>

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<sup>212</sup> Ertan Efeğil and Leonard A.Stone, "Iran and Turkey in Central Asia: Opportunities for Rapprochement in the Post-Cold War Era," *Journal of International Studies*, Spring 2003, Vol.20, No.1, p.63.

<sup>213</sup> Turkish Daily News, "Turkish-U.S. Relations, the Middle East and the New Political Landscape After the Collapse of the USSR," Address by the Former State President Suleyman Demirel (Ithaca: 7 October 2003).

## V. CONCLUSION

Turkey and Iran are two countries with historical rivalries in their past. This competitive character in their relations continued throughout their history until today despite the similarities in their political and economic structures. Despite the fact that both countries had similar desires for economic development and western prosperity, they did not keep their economic and political relations on a high level with each other during the reign of Shah Mohammad Reza Pahlavi. Following his rule in 1979, with the Islamic Revolution in Iran, economic relations between Turkey and Iran increased dramatically due to Iran-Iraq War even with the ideological differences between the two countries. Despite some negative developments throughout the 1980s, the economic relations continued on a relatively high level while keeping the political relations on average.

In the beginning of the 1990s, the Soviet Union collapsed and a “new era” of post-Cold War started with new prospects in the region. Having substantial proximity and holding key locations, Turkey and Iran quickly tried to increase their influence within the New Independent States in Central Asia and the Caucasus. However, becoming a leading power for those countries quickly proved to be hard, and Turkey and Iran realized that they lacked enough economic means and capacities to help the Turkic Republics in Central Asia and the Caucasus.

In the early 1990s, Turkey’s energy need started to increase due primarily to industrial reasons forcing Turkey to look for additional options. Turkey was importing natural gas from Russia through pipelines via Bulgaria in the northwest and the Blue Stream pipeline under the Black Sea in the northeast. In addition, Turkey was also importing liquefied gas from Algeria and Nigeria. Additionally, Turkish energy policy dictated a need to play an active role in pipeline politics encouraging the oil and gas transfers from the Middle East and the Caspian to Europe through Turkish territory. As the energy need of Europe increased, the need for energy security gained importance, since Russia was the only outside supplier to Europe delivering natural gas through pipelines. Thus, Europe had the potential to import additional natural gas and Turkey was

in the middle of Europe and the natural gas rich areas. Therefore, it did not take long for Turkey to seek a partnership with Iran due to its vast natural gas reserves.

Turkey and Iran signed the agreement guaranteeing natural gas sales to Turkey in mid-1996, and the gas sales started in 2001 upon construction of the gas pipelines from Iran to Turkey. Turkey benefited from the natural gas agreement in different areas: politically, economically and environmentally. Through the gas agreement, Turkey increased its relations with Iran. The two countries agreed on having more trade activities as well as gas sales. The trade activities continued to increase at a steady pace annually. In addition, Turkey and Iran worked together in their security issues such as establishing joint security committees and launching simultaneous border operations against the PKK. Thus, a larger cooperation flourished between the two bordering countries as a result of their natural gas cooperation.

Turkey not only received a positive response from Iran regarding the PKK, but also Iran did not use its Islamic rhetoric against Turkey, which can be considered as a contribution to Turkey's national security regarding the Islamist elements in Turkey. Turkey always perceived the Islamic rhetoric of Iranian mullahs' as a threat due to the Islamic groups in Turkey. However, the Iranian economic interest proved to be more crucial than the ideological principles of the mullahs. Therefore, the natural gas agreement also benefited Turkey in national security terms.

Turkey's gas agreement with Iran also benefited Turkey on the EU front. After raising the prospects of supplying Europe with Iranian natural gas, rapprochement between Turkey and Greece came to the table between both countries due to the need for cooperation in natural gas transportation from Iran to Europe. Thus, the cooperation started after the signing of the natural gas agreement between Turkey and Iran, and turned into interdependency between three linking countries, Iran, Turkey and Greece. In addition, Turkey was able to promote its geographic significance in Europe's energy security. The natural gas pipelines between Turkey and Iran proved that Europe's energy diversification regarding oil and gas lay in Turkey. Since Turkey is the shortest link between Europe and the Middle East, the natural gas agreement with Iran can even play a role in Turkey's EU membership process.

Turkey's natural gas agreement with Iran also affected the plans of Russia and the United States in the region. On the one hand, Turkey was able to diversify its natural gas imports through Iran, so Russia would not be the only natural gas supplier via pipeline to Turkey anymore. Turkey also signed an agreement with Turkmenistan to purchase gas through Iranian territory undermining the Russian monopoly in oil and gas exports to the Central Asian republics. Russia was the absolute monopoly in controlling the Central Asian oil and gas exports. Russia still has leverage over NIS, however the Turkish-Iranian natural gas pipeline created new opportunities for the Central Asian republics to get their oil and gas exports through Iranian and Turkish territory, and this has made Russian influence more difficult than before.

The implementation of the natural gas agreement between Turkey and Iran may result in consequences that might bother Turkey's interest in other areas. Russia is the biggest concern regarding the negative aspect of such consequences. Ending Russia's monopoly in pipeline politics from Central Asia to the West is the primary reason that would urge Russia to exert pressure in order to reestablish its influence over the Former Soviet Republics. Since those republics are still largely vulnerable to Russia through economic and political policies, the development of the political and economic institutions in Central Asia might take longer. In addition, the BTC pipeline has a "politically fragile" route through Georgia. In order to bother the Turkish interest, Russia might use South Ossetia and Abkhazia as a trump card against Georgia to undermine the security of the BTC pipeline.

On the other hand, the natural gas agreement between Turkey and Iran meant a two sided issue to the United States. The U.S. opposed the agreement on the basis that the agreement would provide revenues to the Iranian economy and work against the U.S. sanctions towards Iran. However, the agreement was helpful to the revival of the Central Asia's New Independent States, the major U.S. goal in Central Asia. Through the natural gas agreement between Turkey and Iran, Iran established a natural gas pipeline from Iran to Turkey and linked the same pipeline to Turkmenistan. Thus, the pipeline that the U.S. opposed in principle turned into an asset that assists the U.S. goals in Central Asia in strengthening those states economically and encouraging their economic and political independence from Russia.

Despite the fact that the United States opposed Turkey's Iranian natural gas agreement, it had an interest strengthening Turkey as a Muslim democracy, which was another aspect of the U.S. interest regarding Central Asia and the Caspian. The United States needs a successful model of Muslim democracy in order to promote the development of social, economic and political institutions in Central Asia's young republics. Regarding their potential in population growth in the future, they are expected to be a decisive number for regional stability and security issues. Therefore, it is very important for the U.S. and global security to succeed the political and social developments, both of which go through Turkey's wellbeing and natural gas pipeline with Iran.

The Turkish-Iranian gas agreement not only serves the U.S. interest in Eurasia, but also helps Iran's openness. Based on a higher concern for its economic interests, Iran's focus is not on spreading its Islamic influence in Central Asia and the Caucasus. Also, Turkey and the Former Soviet Union Republics are not receptive to the Islamic principles in their daily lives. Therefore, Iran continuously refrains from imposing Islamic principles to prevent those republics from being alienated, which helps reduce Iran's fundamentalist approach.

When looking overall, Turkey emerges as the intersection spot for the interests of many actors inside and outside of the region. One single natural gas pipeline connects Central Asia to Europe and can benefit many countries on the route distributing prosperity and stability. The interest of the U.S., the EU, Greece, Iran and the Former Soviet Republics in Central Asia and the Caspian converge in Turkey leaving many differences aside in order to receive the economic benefits. Therefore, Turkey has the potential to create and promote the interdependency among many different countries for future possibilities of security building issues using its natural gas pipeline with Iran. Despite the fact that many actors in the region have different points of view towards the issues, all of them eventually can agree that security, cooperation and stability is going to benefit them more in the future rather than instability and uneasiness. The Turkish-Iranian gas agreement is a good opportunity to promote good relations between Iran and the West, and including Russia's interest through Turkish territory is also possible while reducing the monopoly over its near abroad.

Regarding the future prospects, the need for natural gas will continue to increase, stimulate the disputes over its use and its transport will continue to be an ongoing issue among the haves and have nots. In solving the disputes in order to prevent the instability in Central Asia and Caucasus, all scenarios eventually need the participation of Turkey and Iran, since they hold the key positions for pipeline crossing in the region. Pipelines will be as important in the 21<sup>st</sup> Century's "New Great Game" as the railroads were of great significance in the "old" one. The purpose of delivering prosperity, transfer goods and having control of that mechanism were great importance in the past, and is likely to be important in the future. Passages still are quite important to keep the control of resources and acquire advantages over others. Despite the fact that many battles were fought to gain the control in the past, 21<sup>st</sup> Century is the century of negotiations, and compromise due to unlikelihood of an armed conflict, since it will be too costly for everybody. Therefore, the more countries are connected by the pipelines, the less fight is likely to emerge while each actor is likely to receive more benefit than expected. In achieving that, Turkey is still the key, and will maintain its status in the future due to being a country of converging interests of many.

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